Annual General Meeting

Company Participants

- Charlie Munger, Vice Chairman
- Unidentified Speaker
- Warren E. Buffett, Chairman, President & Chief Executive Officer

Other Participants

- Analyst
- Andrew Ross Sorkin
- Becky Quick
- Carol Loomis
- Cliff Gallant
- Doug Kass
- Jonathan Brandt

Presentation

Warren E. Buffett {BIO 1387055 <GO>}

Good morning. I'm a little worn out. We're going to -- well, first of all, I really want to thank Brad Underwood. He puts the movie together every year, does a terrific job. Andy Heyward and Amy are responsible for the cartoon. They also produce "The Secret Millionaire's Club," which has been a huge hit this year, and I really want to thank them for their part in this, too.

And finally, Carrie Sova who-- who puts this whole affair together, she's four months pregnant. She got her MBA, I think, yesterday or-- and, in addition, she is the ringmaster for all of this. Let's give Carrie a terrific hand. We'll go through a few figures, few slides. I'll introduce the directors and make one or two more announcements, and then we'll get on to the questions. Now, if we could put up the first Slide, which is the earnings that were released yesterday. And as you can see, it was a good quarter.

It wasn't quite as a good a quarter as it looks, which I'll explain in a second. But really all of our businesses did very well. You should focus on operating earnings. Charlie's getting a head start here on the peanut brittle and fudge, so I'll catch up later. It was a very good -- it was a benign quarter in insurance, but our other businesses, particularly our big businesses, did quite well, and I don't remember whether we've ever had operating earnings of more than 3 point -- almost $8 billion. But, in any event, it was quite satisfactory.

Now, we'll put up slide two. The insurance earnings were helped a bit. They were still terrific without these factors, but they were helped a bit by the fact that the dollar was strong, and that reduces the liabilities we have on outstanding in foreign currencies. So if we have losses we're going to pay in the future and they're payable in pounds or euros and the dollar appreciates against those currencies, we get a small benefit from that.

We also have it -- it hurts us in other ways. We have so many different kinds of businesses, and then we own other earnings through Coca-Cola that operate around the world, that I really never know whether when the dollar goes up or down, whether it helps us or not. So I've never been able to figure it out. So we just sort of take it as it comes. And we do want to explain that to you, the insurance earnings.

And then we had another item, which is kind of interesting. We've had a disagreement with Swiss Re about a life reinsurance contract, and that's -- the disagreement's probably lasted for well over a year, and that was settled in the first quarter. And as you can see, we showed a gain of $255 million pretax from settling this disagreement, but, interestingly, Swiss Re showed a gain of $100 million also from settling the disagreement. So, we are working on an arrangement with Swiss Re whether we'll get in an argument every quarter, and both report higher earnings when we settle it.

It's magnificent what accounting can do. One real high point of the first quarter was the pickup which I noticed -- which I noted --in the annual report, about the gain in both the closure rate and the persistency rate at GEICO. These are hugely important factors. And if we'll put up the chart showing the gain of GEICO's auto policies, the strengths I mentioned in 2012, and not only continued in 2013, but the trend has become even stronger. And there's a lot of seasonal to policy gains. But as you can see, month by month, our gains have -- and policies have very significantly improved over 2012.

And, again, it's because our closure ratio, in other words, the number of people that get a quote from us and then go on to buy a policy, that rate has improved very significantly this year, and with it we also had a gain in persistency, the people that renew the policies with us, and that's pure gold. A policy has a mathematical value to us of at least $1,500, so if we had a million policies in a year -- and I'm hopeful we might do that this year -- that's a billion-and-a-half of value that gets built into our intrinsic value, which does not show up on the income statement or balance sheet at all, but it does increase the value of GEICO versus what we carry it for.

And I can't resist a little sales pitch on that because this closure rate, which, like I say, is at incredible levels, means that when people go to our website or call us and get a quote, they find that they can save a lot of money. I mean, people love our little gecko, but they buy the policies because we save them money. And it just so happens that in the auditorium right near here, the exposition hall, we have a lot of very friendly people that will help you save money, too. So I urge you -- you can walk out anytime Charlie is talking and go and get a quote, and a very high percentage of you could save money by doing that. And, you know, that is in the Berkshire spirit, to save money at every opportunity. So I'm hoping you will check that out, and we will set a record for policies sold.

And, finally, our railroad, this year, is doing very well. You saw the earnings in the first quarter report, if you've had a chance to look at that. And we've got some figures up that show our gain in car loadings in the first 17 weeks. It's been 3.8%, whereas the other four major Class I railroads in the United States have had a gain of four-tenths of a percent. That's significant money that -- and we don't have the Canadian railroads here that operate in the United States. They both come down, the Canadian National, Canadian Pacific. But -- but this is representative of what's been happening.

We've been helped by the fact that, fortunately, a lot of oil has been found very, very close to our railroad tracks, and what better place to find oil? And so we've been moving a lot of that, and it's worth -- and we'll be moving a lot more the way things are going. And the result of all this -- we now will put up the next slide -- we're now the fifth most valuable company in the world. And that will change over time, but I hope it changes for the better.

I'd like -- the business part of this meeting starts at around 3:30, and at that time we'll have the election of directors. But I would like, nevertheless, for those of you who won't stick around to the bitter end, I would like to introduce our directors, and -- Charlie and I are directors. And if our directors would stand and remain standing when I call your name. And no matter how strong the urge, withhold your applause until they're all finished standing, and then you can withhold your applause then if you wish, too, but I plan to applaud. Okay.

Howard Buffett. Steve Burke. Susan Decker. So just stand and remain standing -- there we are. Okay. Bill Gates. Sandy Gottesman. Charlotte Guyman. Don Keough. Tom Murphy. Ron Olson. Walter Scott, Jr.And our soon to be new member, Meryl Witmer. Okay. No more withholding. Now, we'll start the questioning in just one minute, but there were one or two announcements to make.

We did not put it in the -- we did not put it in the annual report because we hadn't firmed it up yet, but tomorrow at Borsheims, our friend Ariel Hsing will be available to play table tennis with any of you foolish enough to challenge her. I met Ariel when she was nine, and she became the youngest women's table tennis champion of the United States, and then last summer she went on to the Olympics. And at the Olympics, she won her first two matches, and she won more games off the woman that became the eventual Olympic champion than any other participant in that event. So Ariel will be out there tomorrow at 1 o'clock. And if you're courageous, you'll show up with your paddle and end up looking like an idiot.

One more introduction, I don't know whether we can get a spotlight on him or not, but Stan Lipsey retired this year as publisher of The Buffalo News. And, as Charlie can attest, as well as I, back in 1978, '79, '80, we had an enormous business problem in the Buffalo News. We were locked in a competitive struggle. And we were not doing well, in part, because of we were operating under a tough judicial order for a while until it got reversed on appeal.

And Stan gave up a wonderful life here in Omaha and asked no questions and for no pay came up to Buffalo, and The Buffalo News would not have turned out to be the paper that it's turned out to be or produced the profits that have been produced for Berkshire, without Stan Lipsey. So, if Stan could stand, let's give him a hand. Stan the Man. One other announcement, then we'll go to the questions.

It was announced a couple of days ago that we bought out the final 20% of ISCAR held by the family for about $2 billion. It's a transaction they're happy with, we're happy with. As a matter of fact, if you saw Eitan Wertheimer dancing at "Dancing with the Stars" there, you could have seen how happy he was. So we will now own 100% of ISCAR, but our relationship with the Wertheimer family will continue. It's been a sheer joy. The business has done terrifically. The people have behaved magnificently, and ISCAR will be part of Berkshire forever. So I want to thank Eitan and his family. And, Eitan, are you here? Can you stand up, and your family? Thank you.

Let's have a light here in the front row. Okay. Okay. We'll now move on to our questions. We'll continue these until about noon. We'll take an hour break for lunch. We'll come back, and then we'll continue until about 3:30, at which time we will convene the business meeting. And we will start off -- we have three journalists who have been here before on the right, and we have a distinguished panel on the left, including a short seller, perhaps the first at any annual meeting, and we will start off with Carol Loomis.

Questions And Answers

A - Warren E. Buffett {BIO 1387055 <GO>}

(Question And Answer)

Q - Carol Loomis {BIO 7137249 <GO>}

Good morning. Speaking for the three of us, I hope here, we have received into the thousands of questions. We don't even know how many. And if we didn't pick your question, it was because we just didn't get to it.

I do want to tell you that Warren and Charlie have no idea of what our questions are going to be, no hints at all, and so we look forward to sending them curve balls. I'll start off here. Warren, you measure Berkshire -- this is from William Bernard [ph] of Colleyville, Texas.

You measure Berkshire's corporate performance based on growth and book value per share. The table on page 103 of the annual report shows book value per share has grown at less than an average 12% a year for 9 of the last 11 5-year periods, yet in your last annual letter, you state, quote, "The S&P 500 earns considerably more than 12% on net worth," and then you say, "That seems reasonable for Berkshire also."Why do you say that, given the past record showing that Berkshire has not been earning that much, or is it that you expect to earn that much, recognizing that it is not assured in the future?

A - Warren E. Buffett {BIO 1387055 <GO>}

It certainly is not assured in the future. And the last ten or so years have not been the best for business, generally. But if the stock market continues to behave in 2013 as it has so far, this will be the first five-year period where the gain in book value per share has fallen short of the market performance, including dividends, of the Standard & Poor's.

And that won't be a happy day, but it won't be -- it won't totally discourage us because it will be a period where the market has gone up in every one of the five years. And as we've regularly pointed out, we're likely to be better in down years as we did in 2008, for example, which is the year that gets dropped this year. We're likely to do better in down years, relatively, than we do in up years.

Charlie, how do you feel about the prospects of -- I should point out, incidentally, that we use book value because it's a calculable figure, and it does serve as a reasonable proxy of the year-to-year change in the intrinsic value of Berkshire. If we could really give you a figure for intrinsic value, and back it up, that would be the important figure. As I pointed out, if we gain a million policyholders at GEICO, that actually adds a billion-and-a-half to intrinsic value, and it doesn't add a dime to book value. So, there's a significant gap, which is why we're willing to buy in stock at 120% of book value -- a significant gap between the two. But book value is a useful tracking device.

I should point out also -- I did this in the annual report in respect to Marmon -- when we buy the ISCAR stock, which we pay about $2 billion for, the day we buy it, we mark it down in terms of our book value by roughly a billion dollars. So a billion dollars comes off our book value for making a purchase which we regard as quite satisfactory. And so there are these distortions that occur. But in the end, we have to do better for you than you would do in an index fund. And if we don't, we aren't earning our pay. And I think we'll do that in the future, but I don't think we'll do it every year, and we've proven that in the last few years. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I confidently expect that Berkshire's going to do quite well over the long term. I don't pay much attention to whether it's five years or three years or -- I think we have momentums in place that are going to do Okay. Of course, we won't do as well in the future, in terms of annual gain averaged out, because our past returns were almost unbelievable. So, we're slowing down, but I think it'll still be very pleasant.

A - Warren E. Buffett {BIO 1387055 <GO>}

At 89, Charlie is not really concerned about this stuff year-to-year. I mean, he's taking a longer-range view.

A - Charlie Munger {BIO 1406508 <GO>}

I'm trying to take care of my old age, which might come on at any time.

A - Warren E. Buffett {BIO 1387055 <GO>}

I haven't noticed it.

A - Charlie Munger {BIO 1406508 <GO>}

Okay. Jonathan Brandt, who is a newcomer to the panel, his area is the other-than-insurance aspects of Berkshire Hathaway. And I can assure you that no one has paid more -- I played Jonny in chess when he was about four years old, and, I don't know, I must have been 40 or something at the time, and he kept insisting during dinner that we play chess afterwards.

And we started playing, and, of course, he got me into some impossible position in a few moves, and I told his parents to put him to bed. So, Jonny, I still have kind of comebacks in me, so be careful what you ask. Jon Brandt.

Q - Carol Loomis {BIO 7137249 <GO>}

Good to see you, Warren. A question about ISCAR: what do you feel are the specific competitive advantages that ISCAR has over its primary competitor, Sandvik, and, in turn, what advantages does Sandvik have over ISCAR as the larger player?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Sandvik is a very good company, and ISCAR is a much better company. The advantage it has is brains and incredible passion for the business.

It's interesting to reflect on ISCAR because if you go back to -- what would it be? -- 1951 or thereabouts, when Stef Wertheimer, who had come from Germany, was in Israel, started ISCAR, just think of the prospect that was facing him. Here was a company like Sandvik, or in this company -- country -- Kennametal, or different countries, well-entrenched companies, well-entrenched, well-financed. And here's this fellow in Israel, 25 years old, and the raw material for these cutting tools comes from China. It isn't that the raw material is in Israel.

So everybody buys their tungsten from China, and they sell to customers that are using large machine tools throughout the world, but they're selling it to heavy industry to a significant extent. So they're selling to people like Boeing or General Motors or big industrial companies in Germany, and there's no great locational advantage, in terms of being in Israel doing this. But here's this 25-year-old fellow getting the tungsten from thousands of miles away, selling it to customers thousands of miles away, competing against people like Sandvik, and this remarkable business, ISCAR, comes from that.

And there's no other answer you can give to your question when you see that result than to say that you have had some incredibly talented people who never stopped working, never stopped trying to improve the product, never stopped trying to make customers happy, and that continues to this day. Sandvik is a very good company. I can tell you that based not only on the figures, but on every other aspect of business observation that I possess, that ISCAR is one of the great companies of the world, and we feel very fortunate to own it and to be associated with their management. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, it's a good comparison. Sandvik is a fabulous company, and it's a particular achievement to really do a little better in the competitive market, as ISCAR has done.

A - Warren E. Buffett {BIO 1387055 <GO>}

Quite a bit better.

A - Charlie Munger {BIO 1406508 <GO>}

They've gained.

A - Warren E. Buffett {BIO 1387055 <GO>}

Have you really ever seen much -- a better operation than ISCAR in the manufacturing business?

A - Charlie Munger {BIO 1406508 <GO>}

It's the only place I was ever in where I saw nothing but robots and engineers working computers.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's a --

A - Charlie Munger {BIO 1406508 <GO>}

You cannot believe how modern ISCAR is.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. And the game's not over yet, either. Okay. Now we go to a shareholder in station number 1.

A - Unidentified Speaker

Hi. Dan Lewis [ph] from Chicago. First of all, I wanted to thank you for letting us in the building early today. But let's not -- Let's not do that again next year, though. I don't want to wake up any earlier to get in line.

A - Warren E. Buffett {BIO 1387055 <GO>}

If we had a company that sold coats, we would have left you out there.

A - Unidentified Speaker

Always a comeback. When you think about Berkshire in the decade after you're gone, my question is what worries you the most? What -- I know nothing keeps you up at night -- but what are your big worries and, you know, what can go wrong?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it's a good question. It's one we think about all the time. And that's why the culture is all important, the businesses we own are all important, because those trains will keep running and people will keep calling GEICO the day after I die. There's no question about that.

And the key is preserving the culture and having a successor as CEO that will have more brains, more energy, and more passion for it, even than I have. And it's the number one subject that our board considers at every meeting, and we're solidly in agreement as to whom that individual should be. And I think the culture has just become intensified year after year after year. And I think Charlie would agree with that.

I mean, we always knew what we were about when we first got involved with Berkshire, but making sure that everybody that joined us, that the owners, the shareholders, directors, managers, everybody that bought into this what I think very special culture. That took time, and -- but it is -- I think it's really one of a kind now, and I think that it will remain one of a kind. I think that anything that came in -- any foreign-type behavior would be cast out because people have self-selected into this group, into the company, and it would be rejected like a foreign tissue if we got the wrong sort of person in there.

We have a board that is especially devoted to Berkshire. We don't hold them by paying them huge amounts, it may be noted. And we have people who have brought their companies to Berkshire because they want to be part of it, as did ISCAR. So, I think that whoever succeeds me -- and it will be a lot of newspaper stories and people -- after six months, there will be a story that says, you know, it isn't the same thing. It will be the same thing. You can count on that. Charlie, what are your thoughts?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I -- my thoughts are very simple. I want to say to the many Mungers in the audience, don't be so stupid as to sell these shares.

A - Warren E. Buffett {BIO 1387055 <GO>}

That goes for the Buffetts, too. Okay. Becky?

Q - Analyst

This is a question that comes from Ben Knoll, who happens to be the chief operating officer at the Greater Twin Cities United Way. And he writes in that after the Heinz deal, there was a column that was written indicating that you had gotten the better end of the Heinz deal from your Brazilian partners. That column said that your return was likely to come from the preferred stock dividends, with the common equity portion being dead money. It also said that the way the deal was structured indicated your low expectations for the market overall. Is this an accurate portrayal of the deal and of your expectations for the market overall?

A - Warren E. Buffett {BIO 1387055 <GO>}

No. It's totally inaccurate. The -- it's interesting. Jorge Paulo Lemann and I were in Boulder, Colorado, in early December. And I can't remember if it was -- yeah, on the way to the airport or when we got in the plane. But he said that he was thinking about going to the people at Heinz and proposing a deal and would I be interested.

And I, because I knew both Heinz and I knew Jorge Paulo, and I thought highly, very highly, of both, I said, "I'm in." And maybe a week later -- I don't remember exactly how long-- I received from Jorge Paulo, who I had known for many years starting at Gillette when we were both directors -- I received a term sheet on the deal and another sheet on the governance procedures that he suggested.

And he said, "If you got any thoughts about changing this, just let me know." They were just his thoughts. It was an absolutely fair deal, and it was -- I didn't have to change a word in either the term sheet or the governance arrangement. Now, we actually, Charlie and I, probably paid a little more than we would have paid if we had been doing the deal ourselves, because we think that Jorge Paulo and his associates are extraordinary managers.

They're both classy, and they're unusually good, and so we stretched a little because of that fact. We like the business, and the design of the deal is such that if we do quite well over time at Heinz, that their $4.1 billion will achieve higher rates of return than our overall $12 billion. We have a less-leveraged position in the capital structure than they have. We created -- they wanted more leverage, and we provided that leverage on what I regard as fair terms and what they regard as fair terms.

If anybody thinks that the common is dead money, you know, we think they're making a mistake. But we'll know the answer to that in five years. But the design of the deal, essentially -- we have more money than operating ability at the parent company level, and they have lots of operating ability and wanted to maximize their return on $4 billion.

So my guess is that five years from now or ten years from now, you will find that they've earned a higher rate of return on their investment. But because we put more dollars in, we will have received that same rate of return on our $4 billion, plus of cap common equity, but we also will have received a very fair return on the $8 billion that we put in that created more leverage for them. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, as you said, the report was totally wrong.

A - Warren E. Buffett {BIO 1387055 <GO>}

That'll teach them. Okay. We have Cliff Gallant from Nomura who will ask insurance-related questions for this meeting.

Q - Cliff Gallant {BIO 1854853 <GO>}

Thank you. At Berkshire Hathaway Reinsurance group, Mr.Ajit Jain appears to be employing a new strategy recently with some high profile actions. Berkshire signed a portfolio underwriting arrangement with Aon to do business with Lloyd's. And then last week, there was the hiring of several AIG executives. It appears that Berkshire may be taking a broader share of the market. What is the goal of these moves, and won't these actions eventually produce more average results?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, you -- the goal is to take a greater share of the market. There have been two important moves made by Ajit's operation in the last month or so. One is the -- the first one that was announced -- was this participation of 7.5% in all of the business. Originally, it was announced as applying to the Lloyd's market. I believe it's been extended to the entire London market.

And, now, bear in mind that the people that are insured still have the right to pick who their insurers shall be, so it isn't totally automatic that we receive 7.5% percent of every slip. But we had had an arrangement for a couple of years with Marsh on a marine book and perhaps some other areas, but not across the board. And we think that -- we think that the profit possibilities are reasonable for that business, or we wouldn't have entered into it.

It will give us more of a cross-section of business than we've been used to having, but it doesn't mean that we give up our present business at all, either. The second item you mentioned is just in the last week or thereabouts. It was announced that four pretty well-known insurance people that had been with AIG had joined us to write, primarily, commercial insurance, initially domestically, perhaps, but around the world. And these are people that reached out to Berkshire. In the case of at least one of them, even reached out a number of times in the past. But we were ready to enter this field with these people who were very able people. We've had a number of people reach out since the announcement was made only a week or so ago.

So I think you will see Berkshire, in addition to all of the other insurance businesses that has had over the years, I think you'll see us become a very significant factor, worldwide, in the commercial insurance business. I mean, it could be business that reaches into the billions. In fact, I would hope that it would -- it could be -- you know, a fair number of billions over time. And we've got the right people. We've got capital like nobody else has. We have the ability to sign on to coverages that other people have to spread out among others. So, I think we're ideally situated to go into this business, and I'm looking forward to it. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, generally speaking, I don't think the reinsurance business is a very good business for most people. And I think it's a very desirable part of Berkshire's business, the way it's run, but it's different from something like the other businesses, which would work pretty well if somebody else owned them. I think our reinsurance business under Ajit is very peculiar, and other people who think it's easy are going to find out that it isn't.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. And I should point out, this commercial insurance business also, I mean, it will be primary insurance. The Aon arrangement is a reinsurance arrangement, but we will be in the primary business. So, it will be large commercial risks, but there's a lot of premium buy-in there, and there's a lot of chances to make mistakes. But I'd rather have the group we have overseeing that business than any other group I can think of.

Okay. Station 2?

A - Unidentified Speaker

Hi. Mike Sorenski [ph] from New York. In regards to GEICO, Warren, last year you said the firm had no plans to adopt usage-based driving technology, similar to what competitor Progressive --

A - Warren E. Buffett {BIO 1387055 <GO>}

Right.

A - Unidentified Speaker

-- called Snapshot. Is that still the case, and if so, why wouldn't that technology give GEICO better data to potentially give discounts to customers?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. That still is the case, and Snapshot has attracted a fair amount of attention and there are other companies doing that. It's an arrangement, essentially, to tie -- well, the term "Snapshot," perhaps, says it -- to get a picture of how people really do drive.

Insurance underwriting, you know, is an attempt to figure out the likely propensity, based on a number of variables, of a person having an accident. Now, you know, in life insurance, it's very obvious that somebody 100 is -- if you don't know anything else about them -- is more likely to die in the next year than somebody that's 20. When you get into auto insurance, figuring out who's likely to have an accident involves assessing a number of variables, and different companies go at it different ways. Clearly, on statistics, if you're a 16-year-old male, you're more likely to have an accident than I am.

Now, that isn't because I'm a better driver. It's because the 16-year-old is probably driving about ten times as much, and he's trying to impress the girl sitting next to him. And that doesn't work with me anymore, so I've given it up. But the -- we ask a number of questions, and our attempt, as much as possible, is to figure out the propensity of any given applicant, or the possibility, that they will have accidents.

And there are a number of variables that are quite useful in predicting. And Progressive is focusing on this Snapshot arrangement, and we'll see how they do. I would say that our ability to sell insurance at a price that's considerably lower than most of our competitors, evidenced by the fact that when people call us, they shift to us, and, at the same time, earn a significant underwriting profit, indicates that our selection process is working quite well. I mean, if your selection process is wrong, if you treat a 16-year-old male and give him the same rate that you'd give a 40-year-old that's driving their car 3,000 miles or 4,000 miles a year, you know, you're going to get terrible underwriting results.

So our systems, our underwriting criteria, have been developed, you know, over many decades. We have a huge number of policyholders, so that it becomes very credible, these different underwriting cells. And everybody in the business is trying to figure out ways to predict with greater accuracy the possibilities that a given individual will have an accident. And Progressive is focusing on this Snapshot approach, and we watch it with interest, but we're quite happy with the present situation.

Okay. Andrew Ross Sorkin? Oh, Charlie, I've got to give you a chance to comment.

A - Charlie Munger {BIO 1406508 <GO>}

I have nothing to add.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Okay. Warren, we got a couple questions related to this. Warren, now that you're on Twitter and the SEC is allowing companies to make material announcements over social media, what are the implications for Business Wire, a unit of Berkshire?

Do you agree with the SEC's new position on the distribution of material information, and would you consider selling Business Wire given the new rules? If not, how do you think Business Wire will have to transform itself? And, by the way, what are you doing on Twitter?

A - Warren E. Buffett {BIO 1387055 <GO>}

I haven't figured that last one out yet. The -- no, I think it is a mistake. Some companies have announced -- made important announcements -- on webpages, and some, in certain cases, they've messed it up and caused a fair amount of trouble. But the key to disclosure is accuracy and simultaneity. I mean, if we own stocks, or are thinking about owning stocks, we want to be very sure that we get accurate information and we get it exactly at the same time as all other people.

And Business Wire does a magnificent job of that. And I do not want, if I'm buying Wells Fargo, or selling it, or whatever it may be, I do not want to have to keep hitting up to their webpage, or something, and hoping that I'm not 10 seconds behind someone else if there's some important announcement. So, Business Wire has got a traffic record of accuracy and of getting the information to every part of the globe in a simultaneous manner, and that is the key to disclosure.

And I think -- I don't think that -- I don't think anything has come close to doing that as well as Business Wire. So I think we will do very well. We've got a sensational manager in Cathy Baron Tamraz. I couldn't be happier with the business, so we will not be selling it. And if I could clone Cathy, I would do it. I will not -- Berkshire, when it puts out its information -- and we like to put it out, actually, after the market closes because we think there's so much to digest that it's a terrible mistake to have people try and figure it all out in reading a one- or two-page announcement. But anything important from Berkshire, or any of our companies, is going to come out on Business Wire so that people get accurate information at exactly at the same time. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, it's very hard for me to know anything about Twitter when I'm avoiding it like the plague.

A - Warren E. Buffett {BIO 1387055 <GO>}

He sent me out to venture in it, and he's going to see if anything bad happens to me. Okay. We now have a short seller in a first, I believe, at any meeting, Doug Kass.

Q - Doug Kass {BIO 3559809 <GO>}

Thank you, Warren and Charlie. Thanks for this unusual invitation. I'm honored, and I look forward to playing the role of Daniel in the lion's den in front of 45,000 of your closest friends and greatest admirers.

A - Warren E. Buffett {BIO 1387055 <GO>}

You can bring your own crowd next year.

Q - Doug Kass {BIO 3559809 <GO>}

I would note, you have me asking the last question in the group, though. My first question is a follow-up to Carol Loomis's first question. Warren, it's said that size matters.

A - Warren E. Buffett {BIO 1387055 <GO>}

It does.

Q - Doug Kass {BIO 3559809 <GO>}

In the past, Berkshire has purchased cheap or wholesale. For example, GEICO, MidAmerican, your initial purchase of Coca-Cola. And, arguably, your company has shifted to becoming a buyer of pricier and more mature businesses, for example, IBM, Burlington Northern, Heinz, and Lubrizol. These were all done at prices, sales, earnings, book value multiples, well above your prior acquisitions and after the stock prices rose.

Many of the recent buys might be great additions to Berkshire's portfolio of companies; however, the relatively high prices paid for these investments could potentially result in a lower return on invested capital. You used to hunt gazelles. Now you're hunting elephants. As Berkshire gets bigger, it's harder to move the needle. To me, the recent buys look like preparation for your legacy, creating a more mature, slower-growing enterprise. Is Berkshire morphing into a stock that has become to resemble an index fund and that, perhaps, is more appropriate for widows and orphans, rather than past investors who sought out differentiated and superior compounded growth?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. There's no question that we cannot do as well as we did in the past, and size is a factor. Actually, the -- it depends on the nature of markets, too. We might -- there will be times when we'll run into bad markets, and sometimes there our size can even be an advantage. It may well have been in 2008.

But there -- I would take exception to the fact that we paid fancier prices in some cases than, say -- in GEICO, I think we paid 20 times earnings and a fairly-sized -- good-sized -- multiple of book value. So we have paid up -- partly at Charlie's urging -- we've paid up for good businesses more than we would have 30 years or 40 years ago. But it's tougher as we get bigger, I we've always known that would be the case. But even with some diminution from returns of the past, they still can be satisfactory and we are willing -- there's companies we should of bought 30 years or 40 years ago that looked higher priced then, but we now realize that paying up for an extraordinary business is not a mistake.

Charlie, what would you say?

A - Charlie Munger {BIO 1406508 <GO>}

Well, we've said over and over again to this group that we can't do as well in percentage terms per annum in the future as we did in our early days. But I think I can make the short seller's argument even better than he did, and I'll try and do that.

If you look at the oil companies that got really big in the past history of the world, the record is not all that good. If you stop to think about it, Rockefeller's Standard Oil is practically the only one, after it got monstrous, continued to do monstrously well. So, when we think we're going to do pretty well in spite of getting very big, we're telling you we think we'll do a little better than the giants of the past. We think we've got a better system. We don't have a better system than riding up oil, you know, but we have a better system than most other people.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. In terms of the acquisitions we've made in the last five years, I think we feel pretty good about those and -- overall -- and, obviously, including the Heinz. We are buying some very good businesses. We actually, as we pointed out, we own eight different businesses that would each be on the Fortune 500 list if it was a separate company, and then in a few months, we'll own half of another one, so we'll have eight-and-a-half, in effect.

Well, you haven't convinced me yet to sell the stock, Doug, but keep working. Section 3.

A - Unidentified Speaker

Thank you. Jonathan Schiff, visiting from Macau, China. You briefly touched upon this. But on our side of the world, there's a lot of discussion about the U.S. dollar's status at the world's reserve currency. I'm sorry, there's some feedback. It's kind of weird. What would be the effect upon the U.S. and the world economy if the dollar loses that status as a world reserve currency?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I don't know the answer to that, but fortunately, I don't think it's going to be relevant. I think the dollar bill will be the world's reserve currency for some decades to come. I think China and the United States will be the two supereconomic powers, but I don't see any -- I think it's extremely unlikely -- that any currency supplants the U.S. dollar as the world reserve currency for many decades, if ever.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, there are advantages to a country that has the reserve currency, and if you lose that, you lose some advantage. England had a better hand when it had the reserve currency of the world than it had later when the United States had the reserve currency of the world. If that eventually happened to the United States, it would not be, I think, all that significant. It's in the nature of things that sooner or later every great leader is no longer the leader. Over the long run, as Keynes said, we're all dead, and over the long run --

A - Warren E. Buffett {BIO 1387055 <GO>}

This is the cheery part of the section.

A - Charlie Munger {BIO 1406508 <GO>}

Well, if you stop and think about it, every great leading civilization of the past passed the baton.

A - Warren E. Buffett {BIO 1387055 <GO>}

What do you think the probabilities are that the U.S. dollar will not be the reserve currency 20 years from now?

A - Charlie Munger {BIO 1406508 <GO>}

Oh, I think it'll still be the reserve currency of the world 20 years from now. That doesn't mean that it's forever.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Carol?

Q - Analyst

This question comes from John Custabal [ph] of the Philadelphia area. Mr.Buffett, you have said in the past, specifically in a 1999 speech that was printed in Fortune, quote, "You --"

A - Warren E. Buffett {BIO 1387055 <GO>}

You would bring that up, wouldn't you?

Q - Analyst

I would bring that up, right. I'm so glad he sent this question. "You have to be" -- you have said, "You have to be wildly optimistic to believe that corporate profits, as a percent of GDP can, for any sustained period, hold much above 6%." Corporate profits are now greater than 10% of GDP. How should we think about that?

A - Warren E. Buffett {BIO 1387055 <GO>}

What we should think is pretty unusual, and particularly considering the economic backdrop. Corporate profits are extraordinary, as a percentage of GDP, at least looking back on the history of the United States. And what's interesting about it, of course, is that American business, to a great extent, is complaining enormously -- or frequently, anyway -- about the level of the corporate income tax.

Now, the corporate income tax is about half what it was 40 years ago, as a percentage of GDP. But yet, as you point out, corporate profits are at an all-time record, as a percentage of GDP. So I would have you take with a grain of salt the complaint that American business is noncompetitive because of our corporate income tax rate, which gets so widely complained about. American business has done extraordinarily well at a time when inequality, actually, is -- has widened considerably -- both measured by net worth and measured by income, if you take the top versus the people down below.

Well, we heard from one of the people here. And, it will be interesting to see whether these levels can be maintained. Corporate -- business has come back very, very strong, in terms of profits, from the precipice that we were on in the fall of 2008, the panic. Employment has not come back, the same way. And that's going to be, I would say, a subject of a lot of public discourse. And you're seeing -- you're reading more about that, currently. If I had to bet on whether corporate profits would be 10% of GDP -- and, of course, we're talking about profits that are earned outside the United States, I believe, in that -- in the figures you quote -- I would say they're likely to trend downward. But I think that, of course, GDP will be growing, so that does not mean any terrible things will be happening to profits.

Charlie, what do you think about the --?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I wouldn't be too surprised if that 6% figure turned out to be on the low side, in the estimate. Just because Warren thought something 20 years ago, doesn't mean it's a law of nature.

A - Warren E. Buffett {BIO 1387055 <GO>}

We'll talk this over at lunchtime. How do you feel about 10%?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I'm a natural conservative on such items. But you've got to recognize that the stocks themselves are owned by a lot of endowments and pension funds and so on. So it -- that figure doesn't mean that the world's becoming grossly more unequal. There's no automatic correlation between those two figures.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do you feel the corporate tax rate is too high?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think when the rest of the world is -- keeps bringing the rates down, -- there's some disadvantage to us if we're much higher. So I -- I rather like Warren's idea that people like us should pay more, but the corporate tax rate, I'm glad to have lower.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. He's the Republican; I'm the Democrat. Jonathan?

Q - Jonathan Brandt {BIO 17988091 <GO>}

Thanks, Warren. You probably have a couple of dozen direct reports from the multitude of noninsurance businesses that Berkshire owns, and this arrangement seems to work wonderfully for you. But I wonder if this could potentially pose a challenge to your successors. Adding smaller units like Oriental Trading and the newspaper group, even if they are economically sound transactions individually, could arguably add to the unwieldiness of the organization. How do you weigh the benefits of adding earnings with the risk of leaving a less-focused and harder-to-manage company for even highly capable successors?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I think my successor will probably organize things a little differently on that, Jonathan, but not dramatically so. And we'll certainly never leave the principle of our CEOs running their businesses in virtually all important ways except, perhaps -- except for capital allocation.

But, I actually have delegated a few units to an assistant of mine, and my guess is that my successor will modestly organize things in a somewhat different way. I've grown up with these companies and with the people and everything, and so it's a lot easier for me to communicate with dozens of managers, sometimes very infrequently, because they don't need it. It just -- sometimes it's their own preference to some degree.

And somebody coming in fresh would want, obviously, to be -- to understand very well -- and that person will understand, in fact, understands now -- very well, the major units. But you're right, when you get down to units that we have, you know, some businesses that make, you know, only $5 million or $10 million a year or something like that. And my guess is that it gets rearranged a little bit, but that won't really make any difference. I mean, the real money is made by the big businesses. It will continue to be made by the big businesses, and the insurance business, and a little change in reporting arrangements, maybe one more person at headquarters if they go crazy, will really take care of things.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think, of course, it would be unwieldy to have so many businesses, a lot of them small, if we were trying to run them through an imperial headquarters that dominated all the details. But our system is totally different. If your system is decentralization, almost to the point of abdication, what difference does it make how many subsidiaries you have?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. It's working pretty well now.

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

It'll work pretty well afterwards, too. But my successor is not going to do things identically. It'd be a mistake. But the culture will remain unchanged. And the preeminence of the managers of the operating units will remain unchanged, and then every now and then something comes along and a change needs to be made. Sometimes it's through death or disability, or sometimes a mistake is made. But, in the end, we're now trying to acquire companies that are at least at the $75 million pretax level.

Incidentally, the best acquisitions -- to some extent, the best acquisitions -- certainly from my standpoint makes it easier -- is the one -- is these bolt-ons that I talked about in the annual report, in which we did, I think, $2.5 billion worth of last year, because they fall under the purview of managers that we've got terrific confidence in and they add really nothing to what happens at headquarters. And, of course, the best bolt-ons out of all are when we do buy a -- buy out -- a minority interest.

When we buy $2 billion worth more of ISCAR, or a billion-and-a-half more of Marmon, with another billion-and-a-half to come in the next year, you know, that's adding earning power without it, you know, posing any more work. Those are the ultimate in bolt-on acquisitions, getting more of a good thing.

Charlie, any more on that, or--?

A - Charlie Munger {BIO 1406508 <GO>}

Well, if you stop to think about it, if it were all that difficult, what we're doing now would be impossible, and it isn't.

A - Warren E. Buffett {BIO 1387055 <GO>}

I'll have to think about that a little.

A - Charlie Munger {BIO 1406508 <GO>}

Well, think if 50 years -- 20 years ago -- they said to you, can you make something this size with a staff of ten or something in a little office in Omaha? People would've thought that's ridiculous. But it's happened, and it works.

A - Warren E. Buffett {BIO 1387055 <GO>}

: Well, we'll let it go at that. Station 4?

A - Unidentified Speaker

Thank you. Scott Moore [ph], Overland Park, Kansas. With the Fed buying $85 billion per month of mortgage securities and Treasurys, what do you think are the long-run risks to this process, and how does the Fed stop this without negative implications? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, you answered that yesterday in an interview, so I'll let you lead off.

A - Charlie Munger {BIO 1406508 <GO>}

My basic answer is I don't know.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I might say I have nothing to add. But Scott, you came from Overland, so we'll do our best.

A - Charlie Munger {BIO 1406508 <GO>}

I think you're-- the questioner -- is right to suspect that it's going to be difficult.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's going to be -- yeah, it is really uncharted territory. And as many people have found out, whether it was the Hunt Brothers buying silver or whatever it might be, it's a lot easier to buy things, sometimes, than it is to sell them. And the Fed's balance sheet is up around $3.4 trillion now, and that's a lot -- those are a lot of securities. And the bank reserve positions are incredible. I mean, Wells Fargo is sitting with $175 billion at the Fed earning a quarter of a percent, and really earning nothing, after attendant expenses.

So, there's all this liquidity that's been created. It hasn't really hit the market because the banks have let it sit there. You know, in classical economics, you know, that's how you juice the economy, and you pushed it out by having the Fed buy securities and create reserves for the banks and all of those things. But, believe me, the banks want loans. I mean, they are not happy -- Wells is not happy -- having $175 billion at the Fed, and they're looking every place they can to get it out, with the proviso that they hope to get it back from whoever they get it out to, which can slow down a bank at times.

But it-- we really are in uncharted territory. I've got a lot of faith in Bernanke. I mean, he -- if he's running a risk, he's running a risk he knows and understands. I don't know whether he's affected by the fact that his term expires pretty soon, so he just hands the baton off to the next guy and said, "Here. Here's this wonderful balance sheet. And all you have to do is bring it down a few trillion dollars," you know. And I gave a few lectures at George Washington University last year, if you care to read them, and maybe it'll help you.

This is something we haven't seen and it certainly has the potential for being very inflationary. It hasn't been so far. In fact, my guess is that the Fed wishes it had been a little more inflationary. If you're running up a lot of debt, it gets measured in relation to nominal GDP and the best way to run up now, easiest way to run up, not the best way, the easiest way to run up nominal GDP is to inflate and my guess is that they never would admit it.

But that the -- at least some bad numbers are probably disappointed that they haven't seen more inflation. It won't be when they start selling, it'll be when the market gets any kind of a signal that may be just the buying ends, maybe that selling will take place, it's likely to be the shot heard round the world, now it doesn't mean the world will come to an end but it will certainly mean that everybody that owns securities and it was felt that they've been driven into them by extremely low rates or the assets have to go open price because of -- because interest rates are so low. We'll start re-evaluating their hand and people re-evaluate very fast in markets. So while I've been talking Charlie, have you got any new insights?

A - Charlie Munger {BIO 1406508 <GO>}

Well, generally speaking, I think that what's happened in the realm of macroeconomics has surprised all the people who thought they knew the answers, namely the economists who would have guessed that interest rates could go solow and stay solow for so long or that Japan a mighty powerful nation could have 20 years of stasis, after using all the tricks in the economist bag.

So I think given this history, the economists saw that we have a little more cautious and believing they know exactly how to stay out of trouble when they bring money in massive amounts. It is a huge experiment. Yeah.

A - Unidentified Speaker

What do you think the probabilities are that within 10 years you see inflation at a rate of 5% or higher a year?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I worry about even more than inflation. If we could get through the next century with the same results we had in the last century, which involved a lot of inflation over that long period, I think we'd all be quite satisfied. I suspect it's going to be harder not easier in this next century and it wouldn't surprise me, I'm not going to be here to see it. But I would predict that we may have more trouble than we think -- than we now think.

A - Unidentified Speaker

Charlie says he won't be here to see it but I reject such defeatism. Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This is actually a follow-up to the shareholder from Overland Park. The question that was just asked this comes from Anthony Starace, who is in Lincoln, Nebraska and he says how is the Fed zero interest policy affected Berkshire Hathaway's various business segments, for example has it helped or hurt their operations and profitability.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it's helped. Interest rates are to asset prices sort of like gravity is to the apple. And when there are very low interest rates there's a very small gravitational pull on asset prices. And we have seen that getting played out, I mean, people make different decisions when they can borrow money for practically nothing than they made back in 1981 and 1982 when Volcker was trying to stem inflation and used and the government bond rates got up to 15%.So interest rates power everything in the economic universe, and they have some effect on the decisions. We borrowed the money on the Heinz purchase, so a lot cheaper than we could have borrowed it 10 or 15 years ago. So that does affect what people are wanting to pay.

So it's a huge factor and of course, it will presumably -- it will change at some point. Although as Charlie has pointed out in Japan it hasn't changed for decades.

So if you wanted to inflate asset prices, bringing down interest rates and keeping them down. First -- at first nobody believe they stay on the very long. So it reflects the permanence that people feel will be attached to the lower rates, but when you get the 30-year bond down to 2.8%, you're able to have transactions take place. It makes houses more attractive. I mean it's been a very smart policy but the unwind of it has got to be more difficult by far than buying, I mean it's very easy if you're the Fed to buy $85 billion a month, and I don't know what would happen if they started trying to sell $85 billion.

Now, when you've got the banks with loads of reserves there that it might -- it certainly be a lot easier than if those reserves that are already been deployed out into the real economy. Then you would really be tightening things up. But I am -- this is like watching a good movie as far as I'm concerned and because I do not know the end and that's what makes for a good movie. So we will be back here next year and I will or maybe in two or three years and I will tell you, I told you so and hope you have a bad memory. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I strongly suspect that interest rates aren't going to stay this low for hugely extended periods. But as I pointed out practically everybody has been very surprised by what's happened. Because what's happened would have seemed impossible to practically all intelligent people not very long ago. At Berkshire, of course, we got this enormous float in the insurance business and our incremental float we're carrying huge amounts of cash is worth less than it was in the old days and that I suppose you'd give some surety to you people because if that changes we may get an advantage.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, we have $40 billion at the end of the first quarter, we had whatever was $48 billion or $49 billion or something like that in short-term securities. We are learning basically nothing on that. We do not -- we never stretch for yield in terms of commercial paper brings 10 basis points more than treasury, our money. We don't count on anybody else. So we keep it in treasuries basically. And so we're earning nothing on that. So if we get back to an environment where short-term rates are 5% and we would still have the same amount then that would be a couple billion dollars of annual earnings pre-tax that we don't have now, but of course, it would have lots of other effects in our business. We have benefited significantly and the country has benefited significantly by what the Fed has done in the last few years. And if they can successfully pull off a reversal of this without getting a lot of surprises and we'll have been a lot better off. Cliff?

A - Unidentified Speaker

Thank you.

Cliff incidentally, you ran at 240 last year, didn't you in the marathon at Lincoln?

I was in Lincoln marathon after the (inaudible)

We've got, we've got incredible talent on this.

I wanted to ask you more about the commercial insurance business to Berkshire's interest. If the business is attractive, why not make an acquisition. Do you think that public company valuations are too high today?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. There are too many commercial operations that we would want to inquire big ones there, it wouldn't do much. I mean, we've acquired -- when we acquired GUARD Insurance as workers' compensation, but it's just -- it's a small acquisition, it's a good acquisition but that is a commercial in effect underwriter that we acquired like last year.

But if you look at the big ones, some of them we wouldn't want, there's a couple that we would, but the prices would be probably far higher than what we think we might be able to develop a comparable operation for. I mean we in effect, I think we're going to build a very large commercial operation. And essentially we build our book value, and we pick up no bad habits of other companies at least we hope we don't.

So it's really better to build and buy if you can find the right people with the right mindset and that everything in the business. And we've got a terrific manager, obviously Ajit, and these other people have sought him out. So I think if there were certain commercial operations that we could have bought them at the right price we'd have done it. But we've not been able to do that. So we'll build our own and I predict then that we will have a good and significant commercial insurance operation in a relatively short time. Okay. Session 5.

Q - Analyst

Good morning. My name is Benjamin. I'm from Appleton, Wisconsin. And I had a question for you regarding unregulated digital currency, such as Bitcoin. I was wondering what you think the significance of something like that showing up in the last few years is and what do you think that might mean for the future. Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, I hope you know something about this subject because I don't know a thing.

A - Charlie Munger {BIO 1406508 <GO>}

I know what he's talking about but I just don't -- I have no confidence whatsoever in Bitcoin being any kind of a big universal currency.

A - Warren E. Buffett {BIO 1387055 <GO>}

That would certainly be my exact reaction but I don't -- I'm really looked into it but I I'll put it this way. Of our $49 billion we haven't moved any to Bitcoin. Well the truth is I don't know anything about it. That doesn't always stop me from talking about things but it will in this case. Okay, Andrew.

Q - Analyst

Okay. Bill Ackman the Activist Investor who's also a Berkshire investor as well has raised questions in recent months about the legality of the multi-level marketing company Herbalife, he called it a pyramid scheme. Berkshire owns a multi-level marketing company too, the Pampered Chef. Will Ackman's attack on Herbalife have any impact on the Pampered Chef or Berkshire? And do you believe Ackman's concerns are legitimate? How do you think about the debate over multi-level marketing companies and decipher, which ones are legitimate and which ones are not?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, I don't know anything, I've never actually even looked at a 10-K of Herbalife. So I do not know about their operation. But I think the key obviously is whether a direct marketing operation is really based on selling product who would be distributors of one sort, and loading them up. And instead of said this in effect selling it to end users and a Pampered Chef is 1 million miles away from anything where the money is made in anyway by selling the level A and then those people selling the level B and all that sort of thing.

It is true that certain people -- lots of people get paid on the results, the selling results so other people that they recruit. But this business of loading up people with a couple hundred dollars, package or something that they never sell and that being sort of the main business, and I don't know anything about Herbalife on this. I do know about Pampered Chef and that is not Pampered Chef's business.

Pampered Chef's business is based on selling to the end user and we have thousands and thousands and thousands of parties every week where people were actually going to use the product buy it from somebody. And we are not making it, we're not making the money by loading up people and then having them leave the sales force and our profit coming from that, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I think that should be the distinguishing characteristic, if I were regulating the industry, I would look very hard at operations where thousands of people got their hopes as to earning a living by selling the product invested their savings and buying a whole bunch of product that they didn't need themselves. And then, sort of being abandoning the hope and being left with the product and the parent companies are the some of the -- the main companies just going out and selling millions and millions of people on a dream, that was not fulfilled. Johnny?

A - Unidentified Speaker

Well, I think there's likely to be more flim-flam in selling magic potions, pots and pans at our age we're in the market though for any magic potions if any of you haven't. That's the extent of your comment I assume Charlie. Okay. Doug

Q - Analyst

Warren.

A - Warren E. Buffett {BIO 1387055 <GO>}

Doug

Q - Analyst

Warren. Much of Berkshire's returns over the last decade have been based on your reputation and your ability to extract remarkable deals from company's interests as compared to the past when you conducted yourself more as a value investor digging and conducting extensive analysis. What gives you confidence that your successes imprimatur will be as valuable to Berkshire's as yours has been?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well the successor will probably have even more capital to work with and they will have capital presumably from time to time when markets are in distress and at those times very few people, two people have a capital and a lot fewer people have the willingness to commit. But I have no question that my successor will have unusual capital at times when at turbulent times when the ability to say, yes very quickly with very large sums sets you apart from virtually anybody in the investing universe.

And I would not worry about that successor being willing to deploy capital under those circumstances, and being called upon. I mean that Berkshire is the 800 number. When there's really sort of panic end markets and for one reason or another people need significant capital. Now that's not our main business. It happened a couple times in 2008. It happened once in 2011, but that's not been our main business, but it's fine and it'll happen again.

And I would think if you come to a day when the dollar has fallen a thousand points a day for a few days, and the tide has gone out and we are finding out who's been swimming naked, that those naked swimmers may call Berkshire. They will call Berkshire if they need lots of money. And Berkshire's reputation will become even more solidified in terms of being willing to provide capital for sound deals at times when most people are frozen, and when that happens, when I'm not around, it becomes even more the Berkshire brand, and not anything attached to a single individual. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I would argue that in the early days, Warren had a huge success as a value investor in little loan companies because his competition was so small. He stayed in that field. You would have to be in bigger companies, and he's competition would be way more intense. He's gotten into a field being a good home for big companies that don't want to be controlled in meticulous detail by headquarters, where there isn't much competition. So I would argue that he's done exactly the right thing and it's ridiculous to think that the past is the thing he should have stayed in.

A - Warren E. Buffett {BIO 1387055 <GO>}

But we will send, I think he's probably referring to something like the Bank of America transaction or Goldman Sachs and GE and there will come a time in markets where large sums -- I've gotten calls on other things that too but yes.

A - Unidentified Speaker

But other people are not getting the calls.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, they don't have the money and they don't have the willingness to act immediately. And Berkshire Will those qualities will remain with Berkshire After I'm gone, In fact in a sense the area we occupy becomes more and more our own as we get even bigger I would say Charlie.

A - Charlie Munger {BIO 1406508 <GO>}

That's what I like about it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 6. Hi.

A - Unidentified Speaker

Hi, my name is Andre from Beverly Hills, California. During very key events like the Sanborn incident, when you were buying See's or when you were buying Berkshire stocks, you persuaded people to sell you their shares when they really didn't want to what were your three keys to influencing people in those specific situations.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, I don't think you're brought up Sanborn and you brought up See's and I don't think the See's family, there's been a debt in the See's family.

A - Unidentified Speaker

Was Larry See he wasn't at the time.

A - Warren E. Buffett {BIO 1387055 <GO>}

And he'd been the instrumental, I guess grandson of Mary See and the operator and there was a rest of the family really didn't want to run the business. So it was put up for sale and I didn't even hear about it until they had one other party. I don't even know who it was, but they negotiated deal with and that it didn't go through. Charlie probably remembers this better than I do, but we certainly See family and Charlie persuaded me to buy it that we didn't persuade them to sell it. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, we didn't buy anything from any unwilling sellers. And in Berkshire we started buying that 1962 in the open market. It had quite a few shareholders. It was a -- it traded fairly actively and we bought a lot of stock and we did buy a couple of key pieces. We bought one for Otis Stanton who is Seabury Stanton's brother, but Otis wanted to sell. It wasn't the most attractive business in the world. I mean, it was a textile company that lost money in most of the previous years and over a 10-year period that had significant losses. And it was a northern textile company.

A - Warren E. Buffett {BIO 1387055 <GO>}

So we bought stock in the market. A lot of stock in the market, we had two big blocks from Otis Stanton from some relatives of Malcolm case but they were happy to sell with. I never met at the time I bought the stock from Otis Stanton I had never met him. So I delivered no personal sales to him. And the same thing is true of the Chase family that, not Malcolm himself but some relatives they sold us a block of a 100,000 shares. But we were not out convincing anybody to sell their stock. So they've been very little that I can remember where we talked to Betty Peters about avoiding a transaction we thought was done when months ago was considered merging with Financial Corp Santa Barbara I flew out to see her in San Francisco. But she stayed with us. She did not sell her stock and remains a shareholder to this day, 30-plus years, almost 40 years later.

A - Charlie Munger {BIO 1406508 <GO>}

Well, I've got nothing to add to that.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Then we'll go to Carol.

Q - Carol Loomis {BIO 7137249 <GO>}

This question comes from Mark Troutman of Crested Butte, Colorado. And you've touched on this Warren and Charlie on little fringes today. But this is a direct question. Warren, both you and Charlie have described over the years, how you have built Berkshire Hathaway to be sustainable stainable for the long term. I am having difficulty explaining to my 13 year old daughter and frankly too many adults also in easy to understand terms Berkshire's business model and long-term sustainable competitive advantage. Can you give all of us and particularly my daughter Katie who is here today the Peter Lynch 2 minute monologue explaining the business of Berkshire Hathaway and its merits as a long time investments for future decades?

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Charlie you talk to Katie. I'm going to have some fudge.

A - Charlie Munger {BIO 1406508 <GO>}

I'll try that. We've always tried to say the same and other people a lot of them like to go crazy. That's a competitive advantage. Number two, as we've gotten bigger, we've used a sort of golden rule that we want to treat the subsidiaries the way we would want to be treated if we were in the subsidiaries. And that again is a very rare attitude in corporate America, and it causes people to come to us who don't want to come anybody else, that are a long-term competitive advantage.

You've tried to be a good partner to people who come to us and need a partner with more money that is the competitive advantage. And so we are leaving behind a field that's very competitive and getting into a place where we're more unusual. This was a very good idea. I wish we've done it on purpose.

A - Warren E. Buffett {BIO 1387055 <GO>}

A few years ago a person who is in this audience I believe came to me and he was in his 60s. And he said that for about a year, I've been thinking about selling his business, and the reason he'd been thinking about it was not because he want to retire and we're not -- we very seldom buy business from people who want to retire. He didn't want to retire at all, he was loved what he was doing.

But he had an experience in buying business a few years earlier from a family where he had known the fellow that build it, a fellow had died and then just everything bad started happening in the family and the business and the employees everything else. So he really wanted to put to bed the question of what happened with his business, he wasn't really cared a lot about monetizing it or having the money. He just wanted to -- he want to put his mind at ease that what he spent lovingly building up over 30 or 40 years was not going to get destroyed or that his family would get destroyed, if he made a -- if he died so he said he thought about it a year and he thought about it and he thought well if I sell it to one of my competitors, and they would be a logical buyer they usually are, is why we have antitrust laws, if he sold it to a competitor they would come in and basically they would put their people in charge they would have all these ideas about synergy, and synergy would mean that the people that helped him build the business over 30 years would all get sacked and that the acquiring company would come in like Attila the Hun and be the conquering people and he just didn't want to do that to the people that had helped him over the years.

And then he thought he could -- he might sell it to some private equity firm and they figured that, if he sold to them, they loaded up with debt what she didn't like, and then they resell it later on. And then -- so he would have again lost control, he might do the same thing that he didn't want to have happen in the first place in terms of selling it to a competitor or whatever it might be.

So when he came to me he said, he described this and he said it really isn't because you're so attractive, but he said you're the only guy left standing. I mean, yeah, you're not a competitor. You're not a private equity firm and I know I will get a permanent home with Berkshire and that the people that have stayed with me over the years will continue to get opportunities, and they will continue to work for me. And I'll get to keep doing what I love doing, and I won't have to worry about what will happen if something happens to me tonight. Well, that company has turned out to be a wonderful acquisition for Berkshire and our competitive advantages, we had no competitors.

And I think well, we will see more of that. We've seen a lot of it over the years. We'll see more of it. Charlie anything?

And I don't think you mentioned the fact that developing a shareholder base still it's different than -- we do look at shareholders as partners and it's not something in a public relations firm work force or anything of that sort. We want you to get the same result. We get and we try to demonstrate that in every way we can. Jonathan?

Q - Jonathan Brandt {BIO 17988091 <GO>}

I have a couple of questions about Burlington Northern's two energy franchises coal and crude. Given that cold fire generation is in gradual structural decline, can you discuss whether the tracks locomotives and other assets used to deliver coal can be redeployed equally profitable serving other customers. Are those assets fungible? Can you also discuss whether crude by rail can continue to grow even as pipelines are built to serve the Bakken and as the currently large geographic spreads and crude prices potentially narrow, you've talked about the flexibility of crude by rail on TV, can you elaborate on that please?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. There was no coal moving. We would not find a lot of use for some of the tracks we have, there's no question about that. So, I think what you're talking about it would be very gradual over time. But I mean the outlook for coal is not the same as the outlook for oil. A lot of the coal in terms of the year-by-year fluctuations may depend on the price of natural gas, because some of the generating capacity can go in either direction.

In terms of oil I think the view a few years ago was that, there might just be a little blip in terms of rail transportation. But I've talked to some oil producers, the largest up there in the Bakken and I think there will be a lot of rail usage for a long time. In fact increased rail usage. Oil moves a whole lot faster incidentally by rail than it does by pipeline. Most people have sort of a visual conception that the oil is flowing at terrific speech through pipelines into the rail cars are sitting on the sidelines someplace but it's just the opposite you can move oil a lot faster.

And with change -- with different market prices and different refinery situations and all that, there's a lot of flexibility in the oil transportation by rail. Matt Rose is right up front here and if somebody give him a microphone, I think he can probably tell you a lot more about moving coal and oil than I can. Matt? We got a spotlight some place that can focus right out here in front.

A - Unidentified Speaker

Yes. So Warren, the two franchises are really different. That's just the way the geographic is laid out. We expect the coal franchise to basically stay about where it is today depending on natural gas prices as well as what happens with the EPA.

Our crude by rail right now we have about 10 loading stations in the Bakken with about 30 destination stations. We're currently in negotiation looking at about another 30 destination stations. So it's really exciting time right now. We're handling about 650,000 barrels of crew today. We think will be at 750,000 by the end of this year and we see a pathway to 1.2 million to 1.4 million.

A - Warren E. Buffett {BIO 1387055 <GO>}

When you think of the whole country producing 5 million barrels a day, not long ago that is a lot of oil. And of course, it isn't just the Bakken, the shell developments. They can open up a lot of things over time at that. Okay. Station 7.

Q - Analyst

Good morning Warren and Charlie. My name is Bill Hensey from Milwaukee Wisconsin. I have a similar question. Back in 2009 you made a substantial investment in Harley-Davidson with a five-year term at 15%. I noticed that it now o comes due in 2014,what are your plans or thoughts once that investment comes due?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, what we'd like to do is not answer the mail and I guess let them keep paying at 15% but that won't happen. Those were -- we had a few private transactions during a period when the corporate bond market was basically frozen, and received unusual terms although the best terms of this company is obviously could have obtained at that time and those deals are coming due and I wish the five-year deals have been tenure deals. And -- but those -- that was a special time and in effect that's a depleting asset that we have that's left over from five years ago.

We won't see anything like that for a while, but we'll see similar things at some point in the future I mean, the world is given the access is, and they have consequences and we are always willing to act and we did not think Harley-Davidson was going to go broke. I mean it was that simple any kind of company that gets its customers to tattoo ads on their chests can't be all bad. But it will be a sad day when Harley-Davidson notes mature. Okay, Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Andishy Tuzush who asks, if Todd Combs and Ted Weschler, if they purchased stock in a company that you have reviewed before and did not believe to be a good investment, would you share your thoughts with them?

A - Warren E. Buffett {BIO 1387055 <GO>}

I would probably not know they were even buying it until maybe a month after they started. I do not -- they do not check with me before they buy something. I gave them each and other billion dollars on March 31st, and I do not know whether they've spent $1 billion or whether which stocks they bought.

Now, I will see it on portfolio sheets. I got a monthly, but they're in charge of their investment. They got a one or two things that are restricted on in terms of things that, for example, we own a chunk of American Express and under the bank holding company law, we would not be allowed to buy another share. So there's a couple of things like that that restrictions they have. But otherwise wise, they have no restrictions on what they buy, they bought things I wouldn't buy. I buy things they wouldn't buy that's part of the investment process.

I do not tell them how much to diversified they can put it all in one stock if they want to. They can put it in 50 stocks, although that's not my style, they are managing money and when I manage the money, I wanted to be a free agent, if he wanted to give me them, they can make the decision where they want to give me the money, but once they gave me the money and I had the responsibility for managing it, I wanted free rein to do what I wanted, and I did not want to be held responsible things with my hands tied, and that's exactly the position we have with Todd and Ted now. It takes a lot of -- it's an unusual person that we will give that kind of responsibility so that's not something the Charlie and I would do lightly at all. But we thought they deserve the trust when we hired them and we believe that more than ever after washing them in action for a time. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

What can I say in addition to that?

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Cliff?

Q - Cliff Gallant {BIO 1854853 <GO>}

Thank you. I want to ask a follow-up question about snapshot at Progressive. I realize that GEICO's first quarter numbers are very good, things are going very well to company but Progressive is claiming that the data is profound that they're getting from snapshot that they can give their best drivers 30% rate cuts and those customers are still their most profitable customers. We have a lot of GEICO policyholders here today. I'm sure they're very good drivers. Why shouldn't they go try Snapshot and try to save 30% or more? Why isn't GEICO investing in what I think appears to be incredible underwriting tool and potential threat.

A - Warren E. Buffett {BIO 1387055 <GO>}

I don't think but obviously Aggressive disagrees with us but I don't think their selection method is better than ours. And, I would say that I might even feel that ours is a little bit better than theirs. But every company has a different approach to it. Peter Lewis who runs Progressive when he started the company, he told me the story himself and it was a tiny, tiny little company came out of a mutual company as you know. And one of the motorcycle business and the first guy that he insured or the first loss it was reported came from some guy that was red-headed and he just decided not to ensure any redheads for a while that -- when you don't have very much money, you can't afford the experiment too long.

Well, Peter learned that, that was not a criteria and he knew that they had fun telling the story. But all we're trying to do with. If I'm looking at it all these people here and I'm going to issue insurance policies for the next year. I'm going to charge different rates to different people.

And if I'm going to sell them life insurance I'm going to charge different rates to them. I want to sell them health insurance. I'm going to charge different rates. There is a different probability attached to each individual based on a whole a lot of variables at Progressive. Before Snapshot, they had a different selection approach than GEICO and like I say, ours has worked very well and we think it will continue to work well, and we are obtaining under our selection system. We are obtaining a hugely disproportionate number of new policyholders compared to the growth in the market.

So our rates are attractive and our underwriting results are attractive. And we continue always to look for further ways obviously to refine the selection technique. But we don't do any of it lightly because what we're doing now is working very well. And I just invite you to compare the Progressive results with the GEICO results in the next two or three years and I will -- if we're wrong I will be here to freely admit that we were wrong but I don't think we will be.

Okay. Station 8. Oh, Charlie, you want to add anything on that?

A - Charlie Munger {BIO 1406508 <GO>}

Obviously, we're not going immediately copy the oddball things that every single competitor does in the world. Particularly, when we got an operation and that's working so well. If I were starting in the direct auto insurance business, I think Is would attempt to copy GEICO who wouldn't work, but it would offer you the best chance, I think it's a remarkable system and Tony Nicely you can't give him enough credit I mean it is incredible. We will -- I hope we will gain a million policies this year. The entire industry I don't think will gain more than 1.5 million. So we will probably get 2/3, in my view we'll get 2/3 of all the growth and we'll do it very -- and we'll do it profitably, and will save people a lot of money. So I think that's quite a company.

Okay. Station 8.

Q - Analyst

Hi, my name is Alex and I'm from Los Angeles. Mr.Buffett I've heard that one of your ways of focusing your energy is that you write down the 25 things you want to achieve, choose the top five and then avoid the bottom 20. I'm really curious how you came up with this and what other methods you have to prioritizing your desires.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I'm actually more curious about how you came up with it because it really isn't it the case. It sounds like a very good method of operating, but it's much more disciplined than I actually am. If they stick fudge down in front of me I eat it I am not thinking about 25 other choices. So I don't mean to Charlie and I live very simple lives. We know what we do enjoy and we now have the option of doing a pretty much. Charlie likes to design buildings. I mean, he's not a -- he's no longer a frustrated architect he's a full-fledged architect now. And we both like to read a lot but we -- I've never made less. I can't recall making a list in my life but maybe I'll start. You've given me an idea. Thank you. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

What's really interesting on this subject of Warren's operating methods, you can see happening here. We didn't know when we started out this modern psychological evidence to the effect that you shouldn't make a lot of important decisions when you're tired and that's making a lot of difficult decisions is tiring. And we didn't also know as well as we now do how helpful it is to be consuming caffeine and sugar when you're making important decisions.

And what happens of course is that both Warren and I live entirely on autopilot in terms of the ordinary decisions of life. We're just totally habitual so we won't work waste any decision-making industry. I mean energy and that stuff were just in caffeine and sugar. And it turns out a little bothered evidence, this is an ideal way to sit where Warren sits. And what he didn't know that he just stumbled into it.

A - Warren E. Buffett {BIO 1387055 <GO>}

When we write our book on nutrition we promise it to be a huge seller.

A - Charlie Munger {BIO 1406508 <GO>}

I cannot remember decision that Warren has made when he was tired. He's never tired. He sleeps soundly and he doesn't waste time thinking about what he's going to eat you say he just eats what he is always eating. His style turns out to be absolutely ideal for human cognition. It looks peculiar, but he stumbled into something very good.

A - Warren E. Buffett {BIO 1387055 <GO>}

You can write the forward to my next book. Okay. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

This following question comes from a shareholder who asked to remain anonymous. They write, I'm from Omaha, and I'm thrilled you bought our newspaper as a local. Citizen but not so much as an investor in Berkshire. I read your reasons for acquiring newspapers but it still doesn't make sense to me economically given the downward trends in the industry. Don't you think there are other businesses with higher rates of return that you could buy? Why would you buy such a small business since you always say you want to buy elephants? Please quantify exactly what rate of return you expect from the newspapers?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I would say that we will get a decent rate of return. Whether it's most of them incidentally have been bought and they were either as corporations or partnerships of some sort. So they compare to buying a Heinz for example or BNSF or something of this sort. They actually have a certain structural advantage in terms of the eventual return after tax because we get to write-off the intangibles repurchasing that affects the after-tax return compared to the pre-tax return that would come from this. But I would say that our after-tax return with declining earnings which I expect would be at least 10% after tax, but I think and a goodwill be somewhat higher.

I think it's very unlikely that it would be significantly lower and everything we have seen today and it hasn't been that long but we have a number of papers now would indicate that, we will meet or beat the 10%. It doesn't have -- it's not going to move the needle at Berkshire. The papers we have bought now we're probably getting close to maybe having $100 million of pre-tax earnings, a good bit of which is -- a fair amount of which we get a favorable tax treatment on because they were bought from mesh corporations. And on $100 million is real money, but it doesn't move the needle at Berkshire. But it will end up being a very -- I think it'll be a perfectly decent return in relation to capital employed.

Now, we wouldn't have done it in any other business. I mean there is no question he is right about that. But it doesn't require an extra ounce of effort by me or Charlie or people at headquarters. We will get a decent return and we like newspapers and the one thing I'll promise to do with you is I will be glad to give you figures annually as to how we are doing relative to investment.

We are buying the papers at very, very low prices, compared to current earnings, and we must do that because the earnings will be down. Now the interesting thing is of course is that we see books from investment bankers and all kinds of businesses and always the projected earnings go up in the book. A lot of times they don't go -- in reality they don't go off, the difference is that we expect them to go down in the newspapers and whatever the investment salesman expect they certainly don't project that any business they sell will have declining earnings. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well I think what you're saying is that it's an exception and you're like doing it.

A - Warren E. Buffett {BIO 1387055 <GO>}

I wish I hadn't asked. Okay. Doug, sort of a lead-in to you Doug.

Q - Doug Kass {BIO 3559809 <GO>}

Warren in a previous answer to a question you suggested I think for the first time that when you're gone and everyone here hopes that's not for a very long time.

A - Warren E. Buffett {BIO 1387055 <GO>}

No one more than I.

Q - Doug Kass {BIO 3559809 <GO>}

I thought you would say that. You're going to move Berkshire will likely move to a more centralized style or approach to management. My question is in the past, you've demonstrated a great deal of respect for Dr.Henry Singleton, the Founder and longtime CEO of the diversified conglomerate Teledyne. You have written about Singleton quote. Henry is a manager that all investors, CEOs would be CEOs and MBA students should study. In the end, he was 100% rational and there are very few CEOs about whom I can make that statement close quotes.

Prior to his death he broke up Teledyne into three companies. Dr.Singleton told our mutual friend Lee Cooperman that he did it for several reasons. There was one reason in particular that Lee mentioned to me that I want to ask you about. According to Singleton, Teledyne was getting very hard to manage for one CEO. What would you say about the Berkshire situation, given your company's greater complexity, size, and the management issues that you faced in the last few years? And what is the advisability of restructuring Berkshire into separately-traded companies along business lines?

A - Warren E. Buffett {BIO 1387055 <GO>}

Berkshire, to me, seems about the easiest company to manage imaginable. And if you took an earlier answer and I understand why you did, that implied greater centralization after my death, there will be a tiny bit more, just in terms of the small companies. But I do not anticipate any change of any real significance.

Now, Charlie knew Henry Singleton, and I think it might be interesting for Charlie to give you his views on what Singleton did right and, eventually, wrong. And, I'll answer the last part of your question. But breaking it up into several companies, I'm convinced, would produce a poorer result certainly now, and I believe in the future. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, Henry Singleton was a genius who could play chess blindfolded just below the grandmaster level and never got less than an 800 on any complicated math or physics exam. And, I knew him. He lived in my community.

But he started as a conglomerate where he was very interested in reporting higher earnings all the time so he could keep the daisy chain going. And when he managed it on the way down, he bought in the stock relentlessly and very logically, like a great chess player should. And -- but he managed those companies on a way more centralized basis than Berkshire has ever operated. And in the end, the great bulk of the enterprises, he wanted to sell to us. And by that time he was ill and he really wanted to sell to us. And of course, he wanted Berkshire stock. And we basically said to him, Henry, we love you and we'd love to buy your businesses, but we don't want to issue Berkshire stock. So, I don't think you should get the idea that just because he was a genius he did it better than we did. He did, in some ways, because he understood these very high-tech businesses, but --

A - Warren E. Buffett {BIO 1387055 <GO>}

He played the public markets way better. I mean we're not interested in doing that actually.

A - Charlie Munger {BIO 1406508 <GO>}

No, we're not.

A - Warren E. Buffett {BIO 1387055 <GO>}

And he was incredible in that, and he made a fortune for shareholders that stayed with him. But he was --- to some extent, he looked at the shareholder group as somebody to be taken advantage of, and he issued stock like crazy. I'll bet he did at least 50 acquisitions where he wanted to use a very fancy price stock. He was playing the game of the '60s, and we actually have never wanted to get in that game.

I mean, he promoted the stock. He had the Litton Industries background on it, and it was a game that worked wonderfully if you didn't care about how it ended up.

And so we have not played that game. He was -- in terms of wanting to get Berkshire stock he essentially was going into the third stage of first issuing shares at overprice, then buying it back very underpriced, and then he was going to --

A - Charlie Munger {BIO 1406508 <GO>}

That's why Warren was worried.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, exactly.

A - Charlie Munger {BIO 1406508 <GO>}

In terms of our own stock. But he was an enormously talented man and that cool rationality was to be admired. I like our system better. We're more avuncular than Teledyne was.

A - Warren E. Buffett {BIO 1387055 <GO>}

That's the toughest test. Okay. Station 9.

Q - Analyst

Hi, my name is Kelly Morrell from New York, and I have a question. You've been both very outspoken on corporate and personal tax rates, as well as the trade deficit. And I'm wondering if you can elaborate on what the top two or three things you think both business leaders and policy makers should be focused on to preserve U.S. competitiveness?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I would say healthcare cost would be a big item. We're spending -- we're a country that's spending, we'll say -- you get different figures but call it 17.5% or so of GDP. And most of our rivals in the world are paying anywhere from, probably, 9.5% to maybe, 11.5% or thereabout. So, there are only 100 cents in the dollar, and if you give up 6 or 7 or 8 points of that dollar, I mean, it's just like having a raw material that costs you more or something of the sort. So, that will be a major problem in American competitiveness, it is right now and it will -- all signs point to the fact that it will become more so.

And it doesn't relate to the Medicare problem which is a huge problem, obviously, but the real problem is health care costs, whether it's in the private system or whatever payer system you have. We have a big, big disadvantage in cost versus the rest of the world.

People used to talk about how General Motors had $1,500 a car in healthcare cost that Toyota didn't have. Well, if they had $1,500 a car disadvantage in steel costs, I mean, the management would be focused on that. If they had $150 -- if they had $15 difference in steel cost, but health care costs, which are sort of beyond the control of any one company, promise to be a huge competitive disadvantage.

Overall, though, incidentally, I mean, the United States -- since the crisis of 2008 we have done very well, compared to most countries, and our system works. But if you asked me the number one problem for American business, I would say it's that healthcare cost disadvantage. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I would add that I don't think it does our competitiveness any good to have this grossly swollen securities and derivative markets. And the young men from Caltech and

MIT going into high finance and derivative trading, and so on, I think this is a perfectly crazy outcome in terms of its effect on the country.

A - Warren E. Buffett {BIO 1387055 <GO>}

Anything further?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I agree with you about the healthcare, but I find the other more revolting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie's very old testament. And he's right.

Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

This question picks up, indeed, from where you were on the previous answer. It's from John Sealme. I have never heard or read whether all of Berkshire's nearly 300,000 employees are currently receiving health benefits. If all employees today are not receiving benefits, has Berkshire quantified the cost of complying with the Affordable Care Act? And if so, what will be the costs be? In other words, how is the Affordable Care Act going to affect Berkshire?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I don't know the answer to that. The-- I'm virtually certain that we've got 70plus subsidiaries, some of which -- one of which has over 100 itself. It's very hard to speak totally categorically. But to my knowledge, I don't know of any units that don't have healthcare benefits. But like I say, I mean, we just bought 27 or 28 daily newspapers, some of them are very small, so I can't really speak to every single unit.

But healthcare costs are huge costs for us. We're actually going to do -- we do very few things with as you know on a centralized basis but that is something where all of our companies will try to learn what's in store for them and try to figure out some answers. But we have not yet -- we have not assessed in any way put together the kind of figures that that question calls for. We spent a lot of money, obviously, I mean, to get up to the kind of numbers that are coming through on healthcare costs. I see them at some of our -- a few of our individual units, as I look at their monthly reports. I will see costs rising 10% or 12%.

And what happens in 2014, I don't know. But the same thing will be happening to our competitors, and we will try to figure out what makes the most sense at that time. And our individual managers are already working, particularly the larger units, are spending a lot of time on that. But it's not something we try to control out of headquarters.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, it's a -- we really don't want to try and control it out of headquarters. We like that kind of decision being made near the firing line.

A - Warren E. Buffett {BIO 1387055 <GO>}

Jonathan?

Q - Jonathan Brandt {BIO 17988091 <GO>}

Here's a question for Charlie on a subject which I consider him an expert on, and I hope I don't prove my ignorance by asking the question. The question is about capital spending plans at your regulated utilities and a potential long-term risk to realizing returns on current and future capacity.

With the ongoing reduction in the cost of solar panels causing more utility customers to, at least, consider generating electricity from their own rooftops, some worry about a vicious circle of customers reducing their dependence on the grid, forcing utilities to raise rates, to maintain returns on the remaining customers who, in turn, are then incentivized to reduce their dependence on the grid, or even exit it.

I understand the risks are greatest to regulated utilities in sunny places like Arizona and California, but given how much solar power is generated in cloudy places like Germany are regulated utilities in Iowa, the Pacific Northwest, the Rocky Mountains, and the UK really immune?

A - Charlie Munger {BIO 1406508 <GO>}

Well, my answer would be I don't think anybody really knows exactly how this is going to play out. I confidently predict there will be more solar generation in deserts than there is going to be on rooftops in cloudy places and there's a good reason for that. And Berkshire's big operations, as you in solar are in what amounts to desert. And we get very favorable terms and incentives, and I think Berkshire's going to do fine in solar.

I am skeptical, myself, about trying to run the utilities of the world from a bunch of little, tiny rooftops. I suspect there are some twaddle in that and some fancy salesmanship in that arena. And of course, the people that did it early were foolish because the price came down rapidly thereafter. So put me down as not totally charmed by rooftops in cloudy areas.

A - Warren E. Buffett {BIO 1387055 <GO>}

We have Greg Abel here from MidAmerican Energy. If we can direct a spotlight down there, Greg can probably speak to this with a lot more intelligence than Charlie and I. I noticed that Jonathan left me out of the thing entirely when he wanted to get an intelligent answer, but I'm not taking any offense at that. Greg?

A - Unidentified Speaker

Sure. Happy to touch on it. Jonathan, I would touch on the fact you're absolutely right. We're seeing, when it comes to rooftop solar, a decline in the total cost of installing them. At the same time, when you compare it to a regional tariff, or a specific tariff in most of those states, the utility is extremely still competitive. And I would highlight that as you see more rooftops coming on, you'll see a restructuring of the tariffs, but at the same time, there's a lot of protection for the utilities. So in the regions we're supplying power, we will see some introduction of solar, but we're absolutely comfortable our systems for the long-term are valuable both to our customers, and to our shareholders to Berkshire shareholders for the long term. Thanks.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 10.

Q - Analyst

Thank you. Marc Matzoth, Toronto, Canada. Bill Gross made recent comments that his generation of investors, yourselves included, owed a deal of their success to timing. Do you agree with Bill's comment, and do you think a similar opportunity will provide itself to today's investors? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, there's no question that being born in the United States was a huge, huge, huge advantage to me, and as I've pointed out in a recent article being born male was a big advantage. I would not have had the same opportunities in the investment or in the business world, remotely, that I've had if I'd been a female born in 1930.

And the timing could have been a little better. Actually, my dad was a security salesman and, I was conceived in November, 1929. And if you remember, the stocks had gone down dramatically at that time. There really wasn't anybody to call on, for my dad, and there wasn't any television at home or anything. So here I am, you know. So I feel myself very lucky that the crash of 1929 AND I came along.

And that also provided a decade more than a decade, of people who were very turned off. Well, it was a decade of terrible business for quite a while, and then a decade of or more of people that were turned off on stocks, just as we sort of had a decade like that in the past decade going up to 2010 or so, people that -- a lot of people that had gotten turned off by stocks. So that was a favorable environment. But the United States itself was an incredibly favorable environment. If I'd been born five years earlier, I probably would have made more money. But if I'd been born 10 or 15 years later, I would've made, probably, less money.

But, it -- I envy the baby that's being born today in the United States. I mean, I think, on a probability basis, that's the luckiest individual that's ever been born. And I think that they will do very well in life in all kinds of ways, on a probability basis, better than existed one when I was born.

And I think they'll have opportunities to do very well in the investment field, that may not be as good a field as it was for me starting in 1950, '51 or thereabout but it will be a very good field to operate in. And the person that has a passion for investing, born today, coming at the age 20 years from now, is likely, in my view, to do very well, and to live far better than we live today, just as we live far better than John D. Rockefeller lived many years ago. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, the competition was very weak in your early days, and I don't think the competition is as weak now. So I think, I'm sure, we got advantages from timing. And I don't think that means there's nothing to be done ahead.

A - Warren E. Buffett {BIO 1387055 <GO>}

But Charlie, in 2008 and '9, there were all kinds of high IQ highly experienced, investment professionals, I mean, thousands and thousands and thousands of them. And you invested at the Daily Journal Company in some equities at X that are worth what 3x or 4x now or something like that?

A - Charlie Munger {BIO 1406508 <GO>}

That's right.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, I call that opportunity but it may be routine to him but --

A - Charlie Munger {BIO 1406508 <GO>}

But I sat for a lot of years, before I did it.

A - Warren E. Buffett {BIO 1387055 <GO>}

But it still became available.

A - Charlie Munger {BIO 1406508 <GO>}

Oh, yes. But you were drowning in opportunities when I first knew you. You were waiting for --

A - Warren E. Buffett {BIO 1387055 <GO>}

I wasn't drowning in money, unfortunately.

A - Charlie Munger {BIO 1406508 <GO>}

No, what you lacked was money.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, now we've got money and no ideas. Okay. Station 10? Station 10? Do we have a Station 10? Let's take a look. It should be right over there.

Q - Analyst

Hi.

A - Warren E. Buffett {BIO 1387055 <GO>}

Hi.

Q - Analyst

My name is Dexter Nag [ph] I'm from Stafford, Virginia. I'm 30 years old, and I'm wondering what my life will be like in a few years let alone 50 years from now. My question for both Mr.Buffett and Mr.Munger is, how do you think you've changed over the last 50 years? And if you could communicate to yourself 50 years ago, what would you tell them, one piece of advice, business or personal, and how would you do it in a way where your former self would actually heed it?

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, I'll let you answer that. Incidentally, I'll trade you places, so don't worry about your future.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, well basically so old-fashioned that we're boringly trite. We think you ought to keep plugging along and stay rational and stay energetic and just all the old virtues still work, and --

A - Warren E. Buffett {BIO 1387055 <GO>}

But find what turns you on.

A - Charlie Munger {BIO 1406508 <GO>}

You've got to work where you're turned on. I don't know about Warren, but I have never succeeded to any great extent in something I didn't like doing.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie and I both started in the same grocery store, and neither one of us are in the grocery business.

A - Charlie Munger {BIO 1406508 <GO>}

We were not going to be promoted, either, and even though you had the family name.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. My grandfather was right too. It's really I mean, if you're lucky, and Charlie and I were lucky in this respect. We -- well, we were lucky to be in this country to start with but we found things we like to do very early in life, and then we pushed very hard in doing those things, but we were enjoying it while we did it. We have had so much fun running Berkshire, I mean, it's almost sinful. And -- but, we were lucky to -- my dad happened to be in a business that he didn't find very interesting but I found very interesting.

And so when I would go down on Saturday, there were a lot of books to read, and, it just flowed from a very early age. And Charlie found -- he found --

A - Charlie Munger {BIO 1406508 <GO>}

We found a way to atone by your -- for your sins in having so much fun. You're giving all the money back.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, but you give it all back whether you want to or not, in the end.

A - Charlie Munger {BIO 1406508 <GO>}

That's true too.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Laurence Endersen in Dublin, Ireland. And he asks, what factors have enabled Berkshire's insurance pricing policy to stay so rational while also being a very sizable market participant?

A - Warren E. Buffett {BIO 1387055 <GO>}

In insurance, was that?

Q - Becky Quick {BIO 16400962 <GO>}

In insurance, yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, I would say this I really do think that Berkshire is an unusually rational place. I mean, we know what we want to accomplish. We've had the benefit of a very, very long run, and we've had the benefit of whether you can argue whether it was a benefit or not but of controlling shareholders, so we did not have outside influences that pushed us in directions that we didn't want to go.

So insurance should be conducted as a rational activity. And one of the problems that some insurers have had is that they would have a pressure for increasing premium volume every year, brought upon by Wall Street, very few. We actually contracted the business written by National Indemnity, formerly our main businesses, traditional business, I think we contracted it, probably, by 80% or something of the sort when the business became less attractive.

I'm not sure any manager of a public company that was answering to quarterly earnings calls and that sort of thing, I'm not sure whether they could've really stood up to the kind of pressure that they would receive if they followed a similar policy. We have no -- if we do something stupid, it's because we did something stupid. It's not -- no external factors are pressing on us. And that's a great way to operate, and it'll continue to be the way we operate.

Most people, if you own a 0.5% or 1% of the company or less, and other people are doing things that Wall Street is applauding and you're not doing them, it could be very hard to resist. And you respond to media criticism and all kinds of things that we don't have to do it. And there's no reason for us to do anything stupid in insurance. You get offered a lot of opportunities to do things that are stupid. We were major writers of catastrophe -- natural catastrophe insurance in the United States some years ago when the prices were right. We don't think the prices are right now, so we don't write it. We haven't left the market, the market left us. And -- but we are not about to do something where we get paid $0.90 for running a probabilistic loss of a dollar. It just doesn't make any sense and we won't do it. And we don't put any pressure on anybody to do it and their incomes are not dependent on doing it. So it's not hard to be rational at Berkshire. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. There are pressures on other people that we don't want and therefore don't have. It is very hard to shrink an insurance operation by 80% when the people who come in every day don't have enough to do and it's just -- it's a counter-intuitive thing to do. But it's absolutely required that you do it in a place where people go as crazy as they do in insurance.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it's like buying Internet stocks, in the late 1990s. I mean the all around you, you have these people that have high IQs and they're doing it and they're being successful in it. So, everybody from your, your spouse to your employer to the press says, how come all these other -- how come do you think you're so smart avoiding this when everybody else is doing it and they're making a lot of money? And, of course, it creates this social proof where it works for a while.

That's the great danger period in all of these bubbles, is that what starts out with skepticism ends up with your neighbor getting richer than you are because he went along and you didn't. And that sort of thing the bandwagon effect and everything those things are very hard to resist. But we don't have any pressures to do that sort of thing. I mean, we just don't give a damn and if that we don't necessarily think we're smarter than the other person on that. We just think we don't understand what it's all about. And if they can make a lot of money, day trading or whatever it may be, good luck to them. But we're not envious of them, but we certainly are not going to do it just because they're doing it.

Charlie, any more on that?

A - Charlie Munger {BIO 1406508 <GO>}

I always say there's a reason why all that stuff is in the Bible. You can't covet your neighbor's ass or -- I mean, they were having trouble with envy a long time ago. And it's a perfectly terrible thing to do, and how much fun can you have being envious? We always say it's the one sin there's no fun in.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Gluttony is a lot of fun. Lust has its place, too, but we won't get into that. Cliff?

Q - Cliff Gallant {BIO 1854853 <GO>}

We can follow that up. Reinsurance pricing is expected to be down at midyear renewals this year despite the fact that we've had lot catastrophes in recent years. The finger is being pointed towards alternative capital entering the market, new capacity entering the market. How concerned are you about this new capacity, and, what is the likelihood that cheap reinsurance pricing soon leads to cheaper primary and commercial pricing?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We hate dumb competition, and hedge fund -- managed money, but particularly hedge funds have entered the insurance, and more particularly, probably, the reinsurance business, quite aggressively in the last few years.

So one thing, it gives them a chance to have a beard, in effect to operate in Bermuda or someplace where the tax rates are low and where they defer their own income from U.S. income taxes for a long time, and it's a perfectly respectable beard. And it can be sold to investors. And people talk about it, being an uncorrelated type of operation and all of that. Anything Wall Street can sell, it will sell. I mean, you can count on that. And --

A - Charlie Munger {BIO 1406508 <GO>}

They like big words, too.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. And it's very salable now, and the money will flow in and the money will -- may bring down prices, it may do stupid things in reinsurance, but that's happened beforehand in the end, we know what we're willing to do, we know what we think the prices should be, and we will do insurance business where we think that the odds favor us earning an underwriting profit. And if we can't do it, we'll watch for a while. You can't afford, to go along with the crowd in investment, insurance, or a whole lot of other things.

And it can be irritating to have a dumb competitor. I mean, if you've got a service station on the corner and you've got a guy across the street that is willing to sell gas below cost, you've got a terrible problem. That's why I got out of the gas station business a long time ago. But insurance it's nice thing about it is the standby costs are not huge, so it's not like idling steel plants or something. So we were perfectly willing in the 1980s to have our expense ratio go up significantly because our volume went down so dramatically. And it was a standby cost that was real, but it wasn't back breaking, and we just waited for better days, and they came along.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

With our cranky, wait-it-out methods, we probably have ended up with the best large-scale causality insurance operation in the world.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, I mean I think that's true, but --

A - Charlie Munger {BIO 1406508 <GO>}

So why would we change?

A - Warren E. Buffett {BIO 1387055 <GO>}

We never really anticipated it would happen, though, when we started in.

A - Charlie Munger {BIO 1406508 <GO>}

That's true.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. It just sort of evolved. But the principles were useful, and then we were very lucky in getting some sensational people. We've got Tad Montross at Gen Re, we've got Ajit Jain, we've got Don Wurster, we've got Tony Nicely at GEICO.I mean we have just hit the jackpot in terms of the people. And they like the environment of Berkshire in which to operate, because they do not get pressures to do dumb things, which they would get at many other places.

Okay. Station 11.

Q - Analyst

Hi. My name is Susan Tilson, and I'm from New York City. I am a long time shareholder, but this is my first time to Omaha. This is quite the little gathering you've got going on here. You, just a few minutes ago, Mr.Buffett, mentioned that you enjoyed a lot of advantages as a male. I have three daughters, and I would like them to be able to go as far as their aspirations and hard work take them. I've noticed and applaud the fact that you've added women to Berkshire's board, but both the board and senior management at Berkshire still reflect the reality that in 2013 there are very few women holding the top jobs in corporate America. Do you see this as a problem? And if so, what should be done about it?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I do see it as a problem, and I've written an article in Fortune Magazine, which if you go to Fortune.com, I guess it's in front of the paywall, you can click on it, it's only 1150 words or so. And you'll see my views on that. But there's no question that women throughout my lifetime and for a millennia before that, have not had the same shot at many things in the world that males have.

I mean, I have two sisters, as I pointed out in this article both are here today I believe. And a couple of years on each side of me, and absolutely as smart as I am. They're more personable than I am. They got along with people much better than I did when we were young. Their grades were the same, but they did not have the same opportunities at all.

I mean, nobody really wanted to limit them. Certainly, my parents love them the same way as they felt about me, and they never would've dreamt of saying to them that, Warren gets all these opportunities and you don't. But it just existed. And all my teachers in grade school every one of them was a female. And the reason they were females is because they only had a few occupations open to them. So, as a result, I had way better teachers than I sort of deserved for the pay level that existed in it because all this talent was being compressed into a few areas.

Well, a lot of improvement has been made but there's still ways to go. And there is a pipeline effect, so I mean, you couldn't change it all in one day if you wanted to. But on the other hand, that should not be an excused for not changing at all. And then I also wrote about the fact that there's -- that when people are placed in that position, they start believing it about themselves so they do not set their own objectives as high as their potential would indicate.

And that's -- I use the example of Katharine Graham, who I knew quite well, and she was very, very intelligent. She was very high-grade. She had all kinds of good qualities. But she had been told by her mother, and she had been told by her husband, and she had been told by society that women couldn't run businesses as well as men.

And she knew it wasn't true, but she couldn't get rid of it. And she saw herself in this funhouse mirror, and it -- no matter how hard you tried, you couldn't really get rid of the funhouse mirror. It had just been there too longhand I kept saying, you know, look at yourself in a regular mirror, and you'll see somebody who's very smart and very high-grade and just as good as any male you'll find.

Her stock went up 40-for-1 when she was CEO. She wrote a Pulitzer Prize-winning autobiography. And to her dying day, she -- at one level she knew she was the equal of the males around her, and at another level she couldn't get rid of that little voice inside of her that came from her mother and came from all of society that said, you know, you should take care of the garden and let the males do all the important work.

So, both the exterior obstacles they're crumbling to a very significant degree and they should. I mean, it only took thousands of years. I mean as I pointed out in the article, we said in the Declaration of Independence, we hold these truths to be self-evident, that all men are created equal, but they weren't so self-evident when they got around to writing the constitution and they used a bunch of male pronouns in describing the presidency in Article II or when they didn't get around to putting a Supreme Court, a female Supreme Court justice on until 1981.So, the country has come a long way on it. It continues to move. It's moving in the right direction.

But I hope it keeps moving and moving faster, and I hope that the females that are laboring under these beliefs that were told to them about themselves that aren't true get rid of the funhouse mirrors and get regular mirrors. And I say all this in this article if you want to read it in Fortune.com. Thank you.

Okay. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

You'll know why I'm asking this question in a second, and why I picked it. This question is the following. Is Berkshire too big to fail? On the same topic --

A - Warren E. Buffett {BIO 1387055 <GO>}

I think I heard of a book by that name. Who wrote it?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

On the same topic, how do you feel about Dodd-Frank? And now that it's being implemented, how is it impacting Berkshire's insurance businesses and our investments in banks like Wells Fargo and Goldman Sachs?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I don't think it's affecting Berkshire's insurance businesses, to my knowledge. I mean we're -- we've had -- to my knowledge, we've never had anything that impinges on our activity arising from a too-big-to-fail doctrine.

The capital ratios for large banks are being established at somewhat higher levels than smaller banks, and that obviously affects return on equity. The ratios, as I understand it, for Wells are not as high as they would be for Citi or J.P. Morgan, but they're higher than they would be for a local bank in Omaha. And the higher the capital ratio, the lower the return on equity will be. I consider the banking system in the United States to be stronger than, certainly any time in the last 25 years.

Capital is dramatically higher. A lot of the -- well, a very significant part of the loans that were troublesome are gone. The loans that have been put on the last four or five years are far better. It's a I think we've got -- Canadian banking system is very strong, but compared to Europe, I think our banks are or compared to our banks of 20 years ago I think they're dramatically stronger than they were then.

I do not worry about the banking system being the cause of the next bubble. I mean, it will be something else. I mean, we will have bubbles in capitalism. Capitalism goes to excess, and it's because of the humans that operate it. And we will have that again, but usually you don't get it the same way as you got it before. I don't think it will be a housing boom next time.

But, I am -- I feel very good about our investment in Wells Fargo. I feel very good about our investment in U.S. Bank. I feel very good about our investment in Metal of those are very strong banks pursuing, in my view, sound practices, and they should result -- they should be decent investments over time. They won't earn as high a return on tangible equity, nearly as high return as they would have seven or eight years ago, because the rules have been changed. And they have been changed to provide thicker equities, and that pulls down return on equity.

Charlie has been known to express himself on this subject, and I'll give him the floor.

A - Charlie Munger {BIO 1406508 <GO>}

Well, I'm a little less optimistic about the banking system, long-term, than you are. I would like to see something more extreme in terms of limiting bank activities. I do not see why massive derivative books should be mixed up with insured deposits that are insured by the country.

A - Warren E. Buffett {BIO 1387055 <GO>}

I'm with Charlie on that.

A - Charlie Munger {BIO 1406508 <GO>}

The more bankers want to be like investment bankers instead of bankers, the worse I like it. I don't want to say more.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

I get in enough trouble on the subject already.

A - Warren E. Buffett {BIO 1387055 <GO>}

I can see the journalists just licking their chops over there waiting for Charlie to throw a thunderbolt, but he's unusually restrained.

We're now very close to noon. I've promised five years ago I wrote about five or six years ago about the inordinate costs that investors bear and-- many investors bear ingesting sold various types of products. And I talked about hedge funds and private equity and all kind -- whole variety of things. The investment world has been very good at extracting a very significant percentage of the returns that investors get for themselves. So I offered to bet anyone that wanted to step up to the plate that a group of hedge funds would not beat unmanaged no-load index over a 10 year period.

And I promised and then I got a taker, a very nice group of people. I like them. Ted Seides and the Group. And they took me up on this. So we each put about $350,000 or so into something where in 10 years -- well, we put it in zero-coupon treasuries, which would mature and be worth $1 million in 10 years. And I promised to report on the bet every year.

And what we did this year, interest rates fell so far that our original $700,000 or so investment got to be worth like $950,000 just because the five-year treasury got so low. So there was very little appreciation left into it between now and five years from now when it matures. So, we sold the zero-coupon treasuries and we bought Berkshire with the proceeds, and I guarantee that it would be worth $1 million, currently it's worth about a $1 million, $2 million, so that the charities are benefiting to some extent.

Now, Ted has one charity, which is a very worthwhile charity. And I have Girls Inc of Omaha, which is a charity I selected. And we'll put the -- we can put the figures up on the --- there as to where we stand at the moment.

The hedge funds got off to a fast start, and were 13 points ahead of the index fund at the end of the first year. But the last four years -- and these are funds of fund, so they really represent probably 200 or 300, maybe hedge funds underneath. But there's two levels of fees involved. There's the standard fees of the hedge funds, which probably many times are 2 and 20, but can be other things, and then there's the fee of the fund of funds on top of it.

So, we now are at the halfway point, and I'll keep reporting to you every year how we do. And if Berkshire does well, we'll have well over $1 million to distribute to one or two charities. You might enjoy going to a website called longbets.org. That's where -- they're the people that hold the money.

And you will see that there are a number of propositions that people have wagered on, and the proponents and the opponent of every proposition give a short little description. Ted gave a description of why he thought he'd win. I gave a description of why I thought I'd win.

But some of these are -- I just can't resist a couple of -- pointing out a couple of them. You can see these on the web. But one of it is that a large collider will destroy the earth in 10 years. Now there's $1,000 bet on that, but I'm not sure who will collect the -- I thought that was an interesting one. And there was one other, and then we'll go to lunch. But there are a number of these that are quite interesting.

At least one human alive in the year 2000 will still be alive in 2150. Now, that's 148 years from when the bet was entered, there's a $2,000 bet on that. And I hope Charlie is in contention for the -- being the winner of that one.

Well, we'll take a one-hour break for lunch. We'll be back here then and we'll continue with your questions. Thank you.

I had a hot dog with a lot of ketchup for lunch. I hope you did the same. And we'll go to Doug.

Q - Doug Kass {BIO 3559809 <GO>}

Thank you, Warren. Mae West once said, the score never interested me, only the game. Are you at the point now where the game interests you more than the score? But before you answer the question, let me explain to you why I asked it. In the past, your research has been all-encompassing, whether measured in time devoted to selecting investments and acquisitions, or the intensity of analysis, your interest in the old days of knowing the slightest minutia about a company.

You once said, in characterizing Ben Rosner, "Intensity is the price of excellence "Your research style has seemed to morph over time from a sleuth-like analysis American Express comes into mind when you hired Jonathan's dad, Henry Brandt. You and he conducted weeks of analysis and site visits and channel checks. Not so much in the later investments. As an example, you famously thought of making the Bank of America investment in your bathtub. There is an investment message of this transformation from being intense to less intense.

Would you please explain the degree it has to do with the market, Berkshire's size, or some other factors?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I think, actually, you have to love something to do well at it. And there may be exceptions on that, but it is an enormous advantage if you absolutely love what you're doing, every minute of it. And the nature of it is that that intensity adds to your productivity.

And I have every bit of the intensity not manifested exactly the same way but it's there every minute. I mean, I love thinking about Berkshire. I love thinking about its investments. I love thinking about its businesses. I love thinking about its managers. It's part of me. And it is true, you can't separate the game from the scorecard. I mean, you -- so your score card is part of playing the game and loving the game. The proceeds are -- to me are unimportant, but the proceeds are part of the score card, so they come with a score card.

But it's much more important -- I mean, I would -- no question about it, I wouldn't be feel the same way about Berkshire at this point if I didn't own a share of it, if I didn't get paid. I mean, it's what I like doing in life, and that's why I do it. So, I don't think you'll -- I don't think it's actually a correct observation and Charlie can comment on this to say that because we're doing things in a somewhat different way that any of the intensity or the passion has been lost.

There's nothing more fun for me than finding something new to add to Berkshire, and that was true 40 years ago. It's true now and it'll be true 10 years from now, I hope. Charlie, how would you answer that?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think when you bought American Express for the first time, you didn't know that much about it. So, naturally, you were digging in rather deeply. The second time you bought it, I remember you got on the golf course with Olson --

A - Warren E. Buffett {BIO 1387055 <GO>}

Frank Olson, yes.

A - Charlie Munger {BIO 1406508 <GO>}

And you just saw how he couldn't get rid of American Express if he wants to do, and then you bought it the second time. The research is still --- the first one was hard, and the second was easy.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's all cumulative.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, it's cumulative, eventually.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. And, what I learned sitting with Lorimer Davidson on a Saturday at GEICO in January of 1951 is still is useful to me, and I don't have to learn it a second time. I can build on it. But that's one of the great things about investing. I mean the universe there's enough in it so that you can finds lots of opportunities, but there -- it's not like it's changing dramatically all the time. There are some things that may change, and we just don't play in that part of the game if we don't understand them.

But what Charlie says is true. I didn't know a thing about American Express when the Salad Oil Scandal hit in November of 1963. But I thought I saw an opportunity, so I learned a lot about it. I went around to restaurants and talk to people about travel and entertainment cards, as they were called then. I learned about traveler's checks. I talked to banks. And I was absorbing some knowledge.

And then, as Charlie said, when we were up at Prouts Neck playing golf with Frank Olson, and he was running the Hertz Corp., and he was telling me that there was no way in the world that he could get rid of American Express or even get them to cut their fees. That was my kind of business. And I knew enough to proceed to buy a fair amount of stock, and now we own whatever it is, probably 13% of the company or thereabouts. And they keep buying in their stock. We can't buy anymore stock ourselves.

I got asked that question in March of 2009 by Joe Kernen, Why aren't you buying the stock of American Express? Well, it was a bank holding company, and we couldn't add a share. But they are doing it for us, and I love it.

At Coca-Cola, at Wells Fargo, to a lesser degree, at IBM, at most of our companies, our interest in the company goes up every year because the companies are repurchasing shares and they probably earn more money so we got a double play going for us. But the passion is not gone, I promise you.

Station 1.

Q - Analyst

Hi, Warren and Charlie. My name is Vincent Wong [ph] from Seattle. When people analyze a stock, a lot of them looked at quantitative metrics, such as P/E ratio, return on equity, debts-to-asset ratio, et cetera. So, Mr.Buffett, when you analyze a stock for purchase what's your top five quantitative metrics that you looked at, and what's your preferred number for each metric? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we're looking at quantitative and quality -- we aren't looking at the aspects of the stock, we're looking at the aspects of a business. It's very important to have that mindset, that we are buying businesses, whether we're buying 100 shares or something or whether we're buying the entire company. We always think of them as businesses.

So when Charlie and I lead through value line or look at annual reports that come across our desk or read the paper, whatever it may be, that, for one thing we have a -- we do have this cumulative knowledge of a good many industries and a good many companies, not all by a long shot. And different numbers are of different importance -- or various numbers are of different importance depending on the kind of business.

I mean, if you were a basketball coach, you would -- if you were walking down the street and some guy comes up that's 5?4? and says, you know, you ought to sign me up because you ought to see me handle the ball, you would probably have a certain prejudice against it. But there might be some one player out there it may sense on.

But on balance, we would say, well, good luck, son, but, you know, we're looking for 7-footers and then if we find 7-footers, we have to worry about whether we can get them halfway coordinated and keep them in school, a few things like that. But we see certain things that shout out to us, look further or think further.

And over the years, we've accumulated this background of knowledge on various kinds of businesses, and we also have come up with the conclusion that we can't make an intelligent analysis out of -- about all kinds of businesses. And then, usually, some little fact slips into view that causes us to rethink something. It was mentioned how I got the idea about buying the Bank of America --- or making an offer to Bank of America on a preferred stock when I was in the bathtub which is true. But the bathtub really was not the key factor.

The truth is I read a book more than 50 years ago called Biography of a Bank it was a great book, about A.P. Guanine and the history of the bank. And I have followed the Bank of America, and I've followed other banks for 50 years. Charlie and I have bought banks. We used to trudge around Chicago trying to buy more banks in the late '60s.And so, we have certain things we think about, in terms of a bank, that are different than we think about when we're buying ISCAR. And so there is not one-size-fits-all.

We have certain things we think about when we're buying an insurance company, certain things we think about when we're buying a company dependent upon that depended upon brands. Some brands travel very well, Coca-Cola being a terrific example and some brands don't travel. And, we just keep learning about things like that, and then every now and then we find some opportunity.

The Bank of America whenever it was in 2011 was subject to a lot of rumors, terrible -- I mean, lots of big short interest, morale was terrible, and everything else. It just struck me that an investment by Berkshire might be helpful to the bank and might make sense for us. And I'd never met Brian Moynihan at that point maybe I'd met him at some function, some party of something, but I had no memory of it and I didn't have his phone number but I gave him a call. And things like that happen.

And it's not because I calculate some price, precise P/E ratio or price-book value ratio or whatever it might befit is because I have some idea of what the company might look like in 5 or 10 years, and I have a reasonable amount of confidence in that judgment, and there's a disparity in price and value, and it's big.

Charlie, would you like to elaborate?

A - Charlie Munger {BIO 1406508 <GO>}

We don't know how to buy stocks just by looking at financial figures and making judgments based on the ratios. We may be influenced a little by some of that data, but we need to know more about how the company actually functions. And anything a computer could be functioned to do, in terms of screening -- I know I never do it. Do you use a computer to screen anything?

A - Warren E. Buffett {BIO 1387055 <GO>}

No. I don't know how to. No. Bill's still trying to explain it to me. It's a little hard to be precise on because we don't really use screens I never had screening everything. But it's not like we sit there and say, we want to look at things that are below the price of book value or low P/Es, or something of the sort.

We are looking at businesses exactly like we'd look at I mean if somebody came in and offered us the entire business, and then we try to think what is this place going to look like in 5 or 10 years, and how sure are we of it.

And most -- a lot of companies, we just don't know the answer to it. We do not know which auto company is going to be knocking the ball out of the park 10 years from now or which one is going to be hanging on by its fingernails. We watched the auto business for 50 years, it's very interesting business, but we don't know how to foresee the future well enough on something like that.

A - Charlie Munger {BIO 1406508 <GO>}

We think that the Burlington Northern will have a competitive advantage 15 years from now, with a high degree of confidence. We would never have that degree of confidence about Apple, no matter what their financial statement showed.

A - Warren E. Buffett {BIO 1387055 <GO>}

No.

A - Charlie Munger {BIO 1406508 <GO>}

It's just -- it's too hard.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We don't know about an oil company 10 years from now, in terms of what the product will be selling for or anything. But I would say we're virtually 100% confident about a Burlington Northern or a GEICO, or some other companies that I won't name.

A - Charlie Munger {BIO 1406508 <GO>}

People with very high IQs who are good at math naturally look for a system where they can just look at the math and know what security to buy. It's not that easy. You really have to understand the company and its competitive position, and the reasons why its competitive position is what it is, and that is often not disclosed by the math.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. It's not what I learned from Ben Graham, although the fundamentals of looking at stocks as businesses, and the attitude toward the market and all that is absolutely still part of the catechism. But I wouldn't -- I don't know exactly how I would manage money if I was just trying to do it by the numbers that --

A - Charlie Munger {BIO 1406508 <GO>}

You'd do it poorly.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. That takes care of that.

Okay. Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

This question is from Benjamin Knoll of Greater Twin Cities United Way. Every time Bill Gross writes a new essay on the, "new normal", I get more depressed about the prospects for my retirement. Do you share his view that market returns in the next few decades will be much lower than in the past few? And should we expect Berkshire's future market returns to be greatly constrained, not only by its size, but also by much lower equity returns overall?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, Charlie and I don't pay any attention to macro forecasts. We have worked together now for 54 years, and I can't think of a time when we made a decision on the stock or on a company where a macro discussion --- where we've talked about macro. We don't know what things are going to look like, in any precise way. And incidentally naturally we think if we don't know it, nobody else knows. That's the conceit that we have.

And so we why talk -- why spend time talking about something you really don't know anything about? I mean it -- people do it all the time, but it's not very productive. So we talk about the businesses. And I like Bill Gross. Sounds like Lloyd Bentsen back in -- he's a friend of mine. But I don't -- it doesn't make any difference to me what he thinks about the future, it doesn't make any difference to me, what any economist thinks about it.

I have a general feeling that America will continue to work well. And I don't -- there's -- throughout my adult lifetime, and before that, there's always been all kinds of opinions that about what's going to happen this year or the next year or anything like that. And nobody knows. What you do know, with a very high degree of certainty in my view is that BNSF will be carrying more carloads 10 years from now, 20 years from now, that there will be no substitute for the service that they provide; that there will be two important railroads in the west and two important railroads in the east, and that they will have an asset that has incredible replacement value, nobody could turn out something like it, and that they'll get paid fairly for what they do. It's not very complicated.

And to ignore what you know because of predictions about what you don't know, or what nobody else knows, in our view, it's just plain silly. So we don't have anything against somebody talking about a new normal or an old normal or an in-between normal, but it doesn't mean anything to us.

My own guess is that people will do very well owning good businesses, if they don't pay too much for them, whether they hold them for 10 years or 20 years or 30 years. And if they try and time their purchases in some way by listening to forecasts about what's going to happen in business and try and buy and sell them, they're going to do very well for their broker and not so well for themselves.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. But, of course, Warren, we have a lot of money. We have to do something with it. So we're going to do our thing no matter what the external climate is. If you're a busy surgeon and trying to decide whether to work two more years before you retire, then you may be more interested and rationally so, in the new normal. And I would personally advise the guy to work an extra couple of years. In other words, I kind of agree with Bill Gross.

What do you think the normal is? Well, less than we've enjoyed in our lifetimes, the new normal.

A - Warren E. Buffett {BIO 1387055 <GO>}

What have we enjoyed in the last 10 years? I mean--

A - Charlie Munger {BIO 1406508 <GO>}

It hasn't been so bad.

A - Warren E. Buffett {BIO 1387055 <GO>}

No. And it hasn't been --

A - Charlie Munger {BIO 1406508 <GO>}

It's not nearly as good as it was in the first 30.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. And do you think it will be worse than the average of the last 10 years?

A - Charlie Munger {BIO 1406508 <GO>}

I think that's quite a conceivable outcome.

A - Warren E. Buffett {BIO 1387055 <GO>}

So take your pick. Okay. Jonathan?

Q - Jonathan Brandt {BIO 17988091 <GO>}

Warren, I'm sorry. My last question about solar was directed at Charlie, but my next question is about underwear, so I think you can probably fill this one.

A - Warren E. Buffett {BIO 1387055 <GO>}

Boxers or briefs?

Q - Jonathan Brandt {BIO 17988091 <GO>}

I'm not talking. Over time, Fruit of the Loom and others have lost nearly all of the T-shirt-focused wholesale screen print market to Gildan, a relatively new player with very low cost structure. Gildan is now going after the underwear-focused retail market and it's having some success with certain large customers. Branding is obviously more important in the retail market, but is there any reason to think Fruit of the Loom won't lose significant amounts of share here over time, just as they did in the wholesale screen print market? What can they do to protect what remains of their franchise?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. You keep your costs down and you constantly work at brand building, and you try very hard to make sure that your main customers in turn have their customers happy with the product, and are happy with the price points that you can deliver it at.

And you're correct that Gildan in terms of certain aspects, the non-branded aspects, basically, of some parts of the business has hurt Fruit in the last -- last 10 years, certainly. But we turn out first-quality, low-priced underwear with a strong brand recognition. And I think it will be very tough to either build a brand against it or to beat our costs significantly.

Now Gildan pays very little in the way of income tax as you know, because they route stuff through the Cayman Islands, and that's a modest factor. But I think you'll find 5 years from now or 10 years from now, that our market share in men's and boys', particularly underwear will hold up. But you're right. They're a competitive threat. Hanes is a competitive threat. And it's not a business that you can coast on. It's not Coca-Cola, but it's not an unbranded product, either. And I think Fruit will do reasonably well, but it will not get anything like the kind of profit margins that you can get in certain branded products.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. And then, as many products as we have, we may average out pretty well in terms of market shares, but we're not going to win every skirmish or every battle.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 2.

Q - Analyst

Yeah. Hi, Warren. Hi, Charlie. I'm Fritz Hauser [ph] from Offenburg, Germany. I'd like to know what 10 books influenced you the most and that weren't written by Graham and Fisher. And I'd also like to tell you that I think it would be great if you would publish the portfolio statements of the Buffett Partnership years. I think there are a lot of small investors that would get a kick out of knowing, what you invested and how you went ahead and analyzed the companies. Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, Charlie ran something called Wheeler, Munger and his portfolio was even more interesting, so we'll start with you, Charlie.

He ran a more concentrated portfolio than I did in those days.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. I don't think people would be greatly helped. You wouldn't recognize the names, most of them, clearly, Buffet the partnership. You'd recognize American Express with the rattle off some of the names.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, we can start with Mosaic Tile and --

A - Charlie Munger {BIO 1406508 <GO>}

The map company.

A - Warren E. Buffett {BIO 1387055 <GO>}

--Meadow River Coal & Land, there's hundreds of them. Flagg-Utica, Philadelphia Reading Coal & Iron, you name it. I've literally owned -- I bet I've owned 400 or 500 names at one time or another, but most of the money has been made in about 10 of them.

A - Charlie Munger {BIO 1406508 <GO>}

And I couldn't name 10 books either that have -- that I regard as that much better than the next 10. My mind is a blend of so many books I can't even sort it out anymore.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. The Intelligent Investor changed my life in terms of -- I literally had read every book in the Omaha Public Library by the time I was 11 on the subject of investing and there were a lot of books. And there were a lot -- there were technical books, Edwards & Magee, I mean, that was a classic in those days, and a whole bunch of them, Garfield Drew. But -- and I love -- I enjoyed reading them a lot. Some of them I read more than once. But I never developed a philosophy about it. I enjoyed it. I charted stocks. I did all that sort of thing.

Graham's book gave me a philosophy, a bedrock philosophy on investing that made sense. I mean, he taught me how to think about a stock, he taught me how to think about the stock market, and he taught me that the market was there not to instruct me but to serve me. And he used that famous Mr.Market example. He taught me to think about stocks as pieces of businesses, rather than ticker symbols or things that you could chart or something of the sort.

And so it was that philosophy -- and in some way, further influenced by Phil Fisher's book and Phil Fisher was just telling me the same thing that Charlie was telling me, which was that it's very important to get into a business with fundamentally good economics, and one that you could ride with for decades, rather than one where you had to go from flower to flower every day.

And those -- that philosophy has carried me along now, I've learned different ways of applying it over the years, but it's the way I think about businesses now. I have not found any aspect of that bedrock philosophy that has flaws in it. You have to learn how to apply it in different ways. So those are the books that influenced me. And, of course, in other arenas, Charlie has probably read more biography than anybody that I know of and I like to read a lot of it. We're just about through reading the Joe Kennedy biography. You've read that, haven't you now, Charlie? You know, I'm not sure you want to emulate everything he did, but it's still interesting reading.

We read for the enjoyment of it. I mean, it's been enormously beneficial to us, but the reason we read is that it's fun. And, it's still fun. And on top of it, we have gotten very substantial benefits from it. My life would have been different if Ben Graham hadn't gone to the trouble of writing a book, which he had no financial need to do at all. I would have a very different life.

Okay. Becky.

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Bill Miller of Legg Mason. He writes, the U.S. airline industry has been plagued with terrible economics for over 100 years. With the pending merger of USAir and American, the industry will have consolidated to the point where the top four carriers will control almost 90% of the traffic. As a result, the industry has been consistently profitable these past several years, with many of the airlines now earning double-digit returns on invested capital and generating substantial free cash flow. Do you think the industry's much improved economics are likely to persist? And would there be any economic benefits if Berkshire were to own a domestic airline and pair it with NetJets?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, the answer to the second is no. But the question about the industry is really interesting, because it is true that it has consolidated very significantly. And in some businesses, you can have only two competitors and they're still terrible businesses, they beat each other's brains out. And sometimes they end up competing to do very stupid things.

You can argue that that's what happened with Freddie Mac and Fannie Mae. I mean, enormous companies that had a huge advantage over everybody else, but they still, in their battle to both report higher earnings every quarter, and to beat the other guy out, drove prices for insuring loans down to the improper levels and did a lot of other stupid things too.

So you see -- you do see certain industries where once they get down to very -- a very few companies, do extremely well. And you see other industries where, even when they get to be two of them, they don't do that that well. I mean, you can take Coke and Pepsi in the United States. I mean, they're the only two colas that people can name, and 50% or so of the soft drinks are colas. But if you go into a supermarket on the weekend, you will see them pricing their product at ridiculously low prices and competing very vigorously.

So it's very industry specific. The airline industry has this situation where they have very, very, very low incremental costs per seat with the enormous fixed costs, and the temptation to sell that last seat at a very low price is very high, and it's very -- and sometimes it can be very difficult to distinguish between the last seat and other seats. So it's a labor-intensive, capital-intensive, largely commodity-type business, and it's been as Bill Miller points out in that question, it's been, a death trap for investors ever since Orville took off. I mean, as I've said, if there had been a capitalist at Kitty Hawk he should have shot down Orville and done us all a favor.

But the -- but having neglected to do that, investors have poured money into airline companies, and aircraft manufacturing companies, now for 100 years-plus, with terrible results. And if it ever gets down to where there's one airline and there's no regulation, it will be a wonderful business. And then the question is whether, having gotten down now through a lot of bankruptcies, to a relatively few that are doing a high percentage of the seat miles, whether it's a good business yet. I don't know the answer to but I'm skeptical.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, the last time we represented with a similar opportunity was when the railroads did exactly what Bill Miller suggests. The railroads got down and consolidated and got better control of their labor costs and it turned into a wonderful business. And what did we do? We missed it. And we stumbled in very late to the party, right?

A - Warren E. Buffett {BIO 1387055 <GO>}

Right.

A - Charlie Munger {BIO 1406508 <GO>}

So we've proven ourselves to be slow learners in this field, and it's conceivable, isn't it, that Bill Miller is right in what he suggests?

A - Warren E. Buffett {BIO 1387055 <GO>}

Which way do you bet?

A - Charlie Munger {BIO 1406508 <GO>}

It goes into my too hard pile.

A - Warren E. Buffett {BIO 1387055 <GO>}

Mine, too.

A - Charlie Munger {BIO 1406508 <GO>}

But he could be right.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, sure he could. And it will be fun to watch. But we like things we have stronger feelings about. We do not think that things will change dramatically indwell with See's Candy, it's -- we've got -- even there, the real profitability is limited to the West Coast but we do not see some competitor coming along and taking away business.

A - Charlie Munger {BIO 1406508 <GO>}

You really couldn't create another railroad and --

A - Warren E. Buffett {BIO 1387055 <GO>}

I hope not.

A - Charlie Munger {BIO 1406508 <GO>}

And you can create another airline.

A - Warren E. Buffett {BIO 1387055 <GO>}

Very easily, and you have people that like to do it.

A - Charlie Munger {BIO 1406508 <GO>}

That's what we don't like about it.

A - Warren E. Buffett {BIO 1387055 <GO>}

And people love doing it. It's exciting to people. And you can sell the idea. I've had, probably, a dozen proposals over the last 25 or 30 years from people that want to get into the airline business one way or the -- and a number of them have. It's sexy, for some reason. I mean, it -- of you go to the office of some Mr.Big CEO and say, I want to talk to you about this new airplane, you get in the door. I mean, if you want to talk to him about hauling coal or something, it's a little different.

So it is a business that attracts people. And you can go out and raise money for a new airline, and the record is -- it's really been something. I don't know how many bankruptcies there have been in the airline field, but it's an enormous number. And, of course, some have done it more than once. We bought USAir. I bought that. I was at Gorat's with Ed Colodny, and he explained to me how wonderful the airline was -- he's a good guy, incidentally and I wrote a check. And by the time the check was cashed, they were having troubles. I mean, it did not take longhand then they went bankrupt twice. We were very lucky we actually made quite a bit of money on it, as it turned out, because there was a little blip at one point. But I think it went bankrupt twice after we bought it.

And Charlie and I were on the board, and we would look at these projections, and it was just ridiculous. I mean, they never came true, did they, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

No, no, no. It was ---

A - Warren E. Buffett {BIO 1387055 <GO>}

We were very popular because we actually pointed that out a few times.

Okay. Cliff.

Q - Cliff Gallant {BIO 1854853 <GO>}

I want to ask you about share repurchases. How hard a floor should shareholders think about the 1.2 times book value buyback multiple? Are there circumstances under which you would not be buying back at 1.2?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, generally speaking, book value has got nothing to do with the price at which you should purchase your shares; intrinsic business value does. And the correlation between intrinsic business value and book value throughout the investment universe is, there's virtually no correlation. So book value is unimportant to most companies. It actually has -- it has a reasonable tracking utility at Berkshire.

Our intrinsic business value is very considerably above book value, and we have signaled that -- we'll say it right here. We've said it before but in addition, we've signaled that by saying that we would repurchase our shares as long as we had a substantial cash balance, met all the needs of our operating companies, at 120% of book value, and if we got the opportunity to buy it there, we would probably buy a whole lot of it.

The calculus is very much what I put in the report. You take care of your business with money first, and if you can buy additional businesses at something where you add to the per-share value of the business, you do that. If you can repurchase your shares at a significant discount from intrinsic value, it's like buying dollar bills at $0.90 cents or $0.80 cents or whatever it may be, and it's a very sure way of improving per-share value. It's been very difficult for us to do it because every time we announce it, people say, well, if it's -- if he thinks it's worth more than 120% of book.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. Those cheapskates are willing to pay that.

A - Warren E. Buffett {BIO 1387055 <GO>}

All right. Well, if at least one cheapskate is willing to pay that the -- and, they're right. And we don't really -- we've got mixed emotions on it. We don't really like the idea of running a company where it makes most of its money by buying its partners out at a discount, but if partners want to sell out at a discount, we also like the idea of buying and making, sure money that way.

We haven't done much of it. Most of the time our stock has sold in a reasonable range in relation to intrinsic business value. We would think that probably a fairly significant percentage of the time in recent years it sold at, at least some discount. There were a few years when we thought it sold for more than intrinsic business value.

But if it, in our opinion, the directors' opinion, the stock is selling at a significant discount and we've got the money around and we've got the stock offered to us in a reasonable quantity, we will buy it, and then -- and there could be circumstances it's unlikely but there could be circumstances where we'd buy a whole lot at a price that would be attractive for the stockholders who stayed in.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Nothing to add.

A - Warren E. Buffett {BIO 1387055 <GO>}

Station 3.

Q - Analyst

Hi there. Sean Cawley. I'm a real estate agent in Los Angeles, California. Question for Charlie. It's kind of a real estate question, and it's also a company culture question. Have you ever considered moving to Omaha to be closer to corporate headquarters?

A - Charlie Munger {BIO 1406508 <GO>}

Oh, I think the answer to that is no.

A - Warren E. Buffett {BIO 1387055 <GO>}

I'm sure the answer to that is no. Our partnership works extremely well. And even though we're somewhat technophobic, we have gotten to the point where we can handle using the phone and don't push us beyond that.

A - Charlie Munger {BIO 1406508 <GO>}

No, we've never learned anything beyond the phone.

A - Warren E. Buffett {BIO 1387055 <GO>}

But we -- I mean, as a practical matter, we each know exactly how the other guy thinks, so that we don't really even need the phone, exactly. We used to do a lot of phoning back when it cost a lot of money to phone. Now it doesn't cost anything to phone, and we don't talk to each other, hardly.

Charlie -- but Charlie has a lot of fond thoughts about Omaha, incidentally, as do I.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. Although, I -- as I said earlier on this weekend, they're rebuilding it so rapidly now that I felt like Rip Van Winkle. They've torn down so many of the buildings I remember. It's amazing how much Omaha has changed the last five years.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, you have to remember that a third of the lifetime of the country has passed during our lifetime, so you have to expect a little change occasionally, Charlie.

Okay. Andrew.

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Okay, Warren. We got a couple of questions related, this year, to climate change and its impact on the company. So let me ask this question from Clem Dinsmore, who asks: If asked, what would the underwriting experts at your casualty insurance and reinsurance companies advise you and your fellow board members are the emerging risks to Berkshire's many enterprises from the changes in extreme weather associated with climate change?

And I would add that Jed McDonald asked a separate question, but related, saying, what are your thoughts on the price on carbon debate?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, as you've noticed if you've been here the last few years, the climate really is getting a lot warmer. Obviously --- well, Charlie knows far more about science than I do, which is not saying a whole lot, but the -- my general feeling is that there is a -- certainly a reasonable chance that people that are worried about warming and the effect of CO2, et cetera, are right.

But I don't know enough so that I can say that, that I can speak as any kind of an expert on it. I don't know the answer on it, but I certainly am willing to assume that there are a lot of very smart people who think that, and I think that it's a reasonable assumption. I don't think that it makes any real difference in assessing insurance rates from year-to-year.

We have a general tendency to be pessimistic in our assumptions about the likelihood of natural catastrophes, but we would have that general bias, which I think is useful, regardless, if there were no carbon emissions of any kind going on. We would still assume that whatever the past history had been of natural disasters, we would assume that they were going to be somewhat worse. And the global warming in terms of resetting prices of insurance from year-to-year is not a real factor. Our general pessimistic bias is something of a factor.

The second part about pricing of carbon emissions, do you want to repeat that again?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

The full question and I abbreviate it was, what are your thoughts on the carbon -- the price of carbon debate? Do you think it's a feasible way, for example, to incentivize efficiency improvements and capture the externalities of carbon's damaging effects, or is it a lofty, idealized concept too tricky to figure out in practice?

A - Warren E. Buffett {BIO 1387055 <GO>}

I would say that the question calls for having Charlie give the answer.

A - Charlie Munger {BIO 1406508 <GO>}

Well, you've got to realize that I'm a Caltech-trained meteorologist, but that was before they'd invented most of modern meteorology. I think that I carbon trading is pretty impractical, a whole bunch of nations with different ideas, and so on.

And I think if you're going to change habits, the correct answer is carbon taxes. I think Europe, because they're socialists and wanted to tax the thing that people needed the most, they put these big high taxes on motor fuel. So they did it by accident and not because it was a good idea vis-a-vis global warming and a lot of other issues, but because they really needed the money.

But I think they stumbled into the right policy. I think the United States should have way higher taxes on motor fuel, and that's efficient. Some group of shareholders thought they like clapping for high taxes.

A - Warren E. Buffett {BIO 1387055 <GO>}

They weren't all clapping.

Okay. Doug?

Q - Doug Kass {BIO 3559809 <GO>}

Warren, my next question is both a question and an unusual challenge. I'm asking this next question because in the past, you've been open to inviting your audience to apply for jobs. In 2002, you suggested that shareholders who thought they were eligible to send in their qualifications if they were interested in seeking a seat on your board of directors.

And, again, in your 2006 letter, when you advertised for a successor to Lou Simpson at GEICO, you said at the time send me your resume. In the past, you have discussed your views on short selling. You have cited that stocks tend to rise over time, and you've talked about the asymmetry between reward and risk. By contrast, the last 15 years has demonstrated that short selling can be a value additive tool to total return when done by professionals. In fact I believe Todd Combs had success as a short seller when you hired him.

A - Charlie Munger {BIO 1406508 <GO>}

He had so much success he stopped doing it.

Q - Doug Kass {BIO 3559809 <GO>}

Yes, Charlie, but he got the job from that success. My question is --

A - Warren E. Buffett {BIO 1387055 <GO>}

No, no, he didn't. Can't slide that one in there, Doug.

Q - Doug Kass {BIO 3559809 <GO>}

My question is, would you ever consider committing capital to a short-selling strategy? Would you or Berkshire consider being my Homer Dodge, who invested in your partnership after the original seven investors? Would you or Berkshire Hathaway be willing to give my firm at least $100 million in a managed account?

If Seabreeze failed to outperform the increase, during the two-year period, of the book value increase in Berkshire, all the earned fees earned would be contributed half to the Sherwood Foundation, and half to two charities of my choice, including the Jewish Federation of Palm Beach County? And even if Seabreeze outperformed Berkshire's change in book value, 25% of the earned fees would be contributed to the charities.

And I want to add something else. You talked about being technophobic. Technology may be very hard for Berkshire to invest in, but it is also disruptive to many industries whose business models are scathed by it, and this produces very fertile ground for short-selling opportunities.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we got to --

A - Charlie Munger {BIO 1406508 <GO>}

Let me answer that.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. 1:55 without an ad.

A - Charlie Munger {BIO 1406508 <GO>}

The answer to your question is no.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie and I are no strangers to short selling. I mean, we both failed at it. So well just think about how lucky you are. You don't have the competition from all kinds of people that listen to us or us. No, we -- I may even propose a little wager at some point, but we'll let that ride for the time being.

I've known -- well, if you go back far enough, we did a reasonable amount of short selling, and I've certainly identified lots of companies that I thought were far overpriced, and I've identified a fair number of companies that I not only thought, but was virtually certain, were frauds. And so, Charlie -- I mean we've been seeing them ever since we got in the business. But making a lot of money short selling is still is not a game that appeals to us over a long period of time. It's one of those things that --

A - Charlie Munger {BIO 1406508 <GO>}

We don't like trading agony for money.

A - Warren E. Buffett {BIO 1387055 <GO>}

But we wish you well.

Station 4.

Q - Analyst

Ben Sauer [ph] from Shreveport, Louisiana. Could you be more specific about what factors you considered when determining what a fair price was for an acquisition such as Heinz? And also, what sources do you use to make judgments about major changes that will affect an industry?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we usually feel we're paying too much. Isn't that right, Charlie? But we find the business so compelling, the management, our associates, so compelling, that we gag and we get there on the price. But we -- there is no mathematical -- a perfect mathematical formula.

Looking back, when we've bought wonderful businesses that turned out to continue to be wonderful, we could've paid significantly more money and they still would have been great business decisions. But you never know 100% for sure. And so it isn't as precise as you might think. Generally speaking, if you get a chance to buy a wonderful business and by that, I would mean one that has economic characteristics, that lead you to believe with a high degree of certainty, that they will be earning unusual returns on capital over time -- unusually high and, better yet, if they get the chance to employ more capital at -- again at high rates of return that's the best of all businesses. And you probably should stretch a little.

Charlie and I have had several conversations where we were looking at a building -- a business which we liked, and were sort of gagging at the price, and Charlie or I will say, let's do it even though it kind of kills us to pay that last 5 percent. We did that with See's Candy. Charlie was the one that said, for God's sakes, Warren, write the check. I was the one that was suffering. But it's happened quite a few times, hasn't it, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

It almost always happens. Modern prices are not cheap.

A - Warren E. Buffett {BIO 1387055 <GO>}

No, no. And great businesses, you're not going to find lots of them, and you're not going to get the opportunity to buy them and although you do in the market. The stock market will offer you opportunities for profit, percentage-wise, that you'll never see, in terms of negotiated purchase of business. In negotiated purchase of a business, you're almost always dealing with someone that has the option of either selling or not selling, and can sort of pick the time when they decide to sell, and that entire sort of thing.

In stock markets, it's an auction market. Crazy things can happen. You can have, you know, some technological blip that will cause a flash crash or something. And the world really hasn't changed at all, but all kinds of selling mechanisms are tripped off and that sort of thing. So you will see opportunities in the stock market that you'll never really get in the business market.

But what we really like, we really like buying businesses to hold and keep. We like buying cheap marketable securities too. But particularly when you've got lots of cash coming in and you're going to continue to have lots of cash coming in, you really want to deploy it in great businesses that you can own forever.

Charlie, anything?

A - Charlie Munger {BIO 1406508 <GO>}

No. It -- we're sort of in a different mode now. And that has a great lesson, in it. If we'd kept our earlier modes, if we'd never learned, we wouldn't have done very well. It's a game of life it's a game of everlasting learning. At least it is if you want to win.

A - Warren E. Buffett {BIO 1387055 <GO>}

We want to win.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

Carol.

Q - Carol Loomis {BIO 7137249 <GO>}

This question is from Logan Reed [ph] of Pawling, New York, and has both a question and a postscript, and I'm going to do the postscript first. It's friendly. I'm an 86-year-old World War II vet, which puts me about halfway between you and Mr.Munger. I would respectfully and urgently request that you quit eating so many hamburgers. Those things plug up your arteries, and I want to keep you around for a while, in spite of the fact the unfriendliness comes in here that you voted for President Osama.

Now, here is the question.

A - Warren E. Buffett {BIO 1387055 <GO>}

This guy is trying to kill me, and he's doing it --

Q - Carol Loomis {BIO 7137249 <GO>}

Over the years, you've frequently alluded to your legendary reputation for thriftiness, and you've extolled the virtues of the managers of Berkshire companies who have invariably been extremely cost conscious. If these are hallmarks of the philosophy which has enabled you to achieve your astounding success, how can you possibly support an administration which has plunged our country into $16 trillion worth of debt, and has not indicated the slightest concern or the efficiency, inefficiency -- over the inefficiency of big government?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, the $16 trillion, we'll have to give Bush a certain amount of credit for that, too. But they certainly didn't -- certainly wasn't the Osama administration that, at least, allowed policy that created the greatest financial crisis and required an appropriate stimulus on the part of the government.

But, in the end, I find it totally unproductive and that fellow at 86 probably is -- should have founded it out by now to discuss politics with people. I mean, you're to have roughly half agreed with you and half disagree. So if you look at this the trouble is, Charlie and I, even though he's a Republican, I'm a Democrat, we really don't disagree as much as you might think based on that. Otherwise, I could say you could just take your pick here and vote for one of us and ignore the other one, and we would offer a little something for everyone.

The amount of deficit spending in the last four years, the amount of stimulus provided -- fiscal stimulus provided I think has been quite appropriate in relation to the threat to the economy that was posed by the greatest panic in my lifetime.

I mean, you literally had a situation where Berkshire Hathaway was getting a phone call because General Electric needed money, and we were the last stop.

That is quite a situation. It's quite a situation when Freddie and Fannie go into conservatorship and Wampum and Wachovia fail, and where money market funds have 5% drained out of them in three days, and with a panic underway.

So I -- we needed fiscal stimulus in this country.

Now, the real question is, how do you get off of that? And that is a problem, but it's a lesser problem than we would've had if we'd decided to follow some austerity program, in my view, at least, starting in 2008.

How do you feel about that, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I agree with you completely. And, by the way, so did George W. Bush.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

That was bipartisan. We were in so much trouble, that on both sides of the aisle, we finally got together and supported these extreme interventions.

A - Warren E. Buffett {BIO 1387055 <GO>}

George Bush issued, probably, the ten greatest words of economic thought in history. Most people don't give him credit for that.

They think of Adam Smith and comparative advantage and Keynes and Animal spirits and all those guys. But George Bush went out there in September of 2008 and said, If money doesn't loosen up, this sucker could go down. I mean, that is a man that knew how to get to the point. And I give him great credit for it, enormous credit.

And plenty of members of his party did not agree with what he was doing, but we owe him a lot, in that respect. And, we -- our leaders, generally speaking, in both parties, once they were in the terrible trouble, I think they behaved, or came up with policies that, in general, were very useful in avoiding something far worse than what we experienced. And they weren't easy to do. I mean, it took some guts.

So, I am disturbed by a national debt that grows in respect to GDP. In fact, I wrote an article in The New York Times, an op-ed piece, in -- I think maybe 2009 or 2010 -- talking about this very problem.

But, we came out of World War II with a debt higher -- a gross or net debt higher in relation to GDP than we have now, and people were predicting terrible things at that time because of that situation, and the country has done sensationally.

The real danger is that it just continues to grow, and it gets easier to print money than exercise some discipline. But we've encountered far worse problems than we face now. I mean, this is not our country's toughest hour, by a huge margin.

And I think we will do fine, but with a lot of bickering, and kind of nonsense that will bother you when you read about it day to day. But when you look at it from a viewpoint of history 10 or 20 years from now, you will not be that disturbed. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I agree with you about George W. Bush, and I like these non-partisan episodes when we get together and do things right. And I also think that our current problems are quite confusing. In fact, if you aren't confused, I don't think you understand it very well.

A - Warren E. Buffett {BIO 1387055 <GO>}

That sort of immunizes you from everything. How bothered are you by the level of debt in relation to GDP?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't think there's any one fixed ratio that is written in the stars. As a matter of fact, most of the debt, as I conceive it, is not even counted in what you call debt. The off-the-books debt of the United States is bigger than the on-the-books debt, all the present value of future promises that are unfounded.

A - Warren E. Buffett {BIO 1387055 <GO>}

That can be changed, however.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. But, if they can be changed, but are we really going to take Social Security away from somebody who's worked a lifetime?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we shouldn't.

A - Charlie Munger {BIO 1406508 <GO>}

I don't think it's very likely.

A - Warren E. Buffett {BIO 1387055 <GO>}

No, no. But Social Security is not a killer, actually, in terms -- if you have a GDP that rises a couple percent in real terms --

A - Charlie Munger {BIO 1406508 <GO>}

Of course -- that's the great problem. All of our problems are trivial, if GDP will just rise at 2% per annum, per capita. All these problems that the Republicans are screaming about fade into insignificance if we can do that. But you've got to have policies that enable you to do it, and I'm not sure we always do that very well.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Stay tuned. Jonathan?

Q - Jonathan Brandt {BIO 17988091 <GO>}

I have a question about the competitive landscape in the paint business. I personally always use Benjamin Moore, but some say that Benjamin Moore is disadvantaged because it doesn't control its own distribution, as does Sherwin-Williams, and they note that it has lost market share to Behr, which is sold in the home centers at lower prices.

You recently replaced management there. What changes in strategy and/or pricing, if any, are being undertaken at that unit, and what is the outlook for that franchise?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Benjamin Moore, it's a relatively small percentage of the total paint industry, but it -- at the high end, it is the best regarded paint, and we have not lost position in that respect.

But the -- when we purchased Benjamin Moore, I made a promise. I even made a video. It had a dealer system, and people that invested their savings and passed on from generation to generation dealerships from Benjamin Moore, and counted on the company adhering to a dealer system, even though you could always get a huge jump in volume, particularly in the first year, if you went with the big boxes.

So we were always approached by the big boxes, and they said, Let us take Benjamin Moore into our stores, whether it be Home Depot or whomever. And we would've gotten a big jump in volume when that happened and they would've loved us -- to have us -- as a brand with that kind of identity in their stores, but it would've represented a total change in the distribution arrangement.

I don't think it would've worked out as well over time, and I know it would have been essentially -- particularly after my pledge, which the other -- which the management pledged too, they would've been double-crossing a network of dealers that trusted us, and trusted us when we bought it to continue with the policy.

A dealer policy will work with a first-class brand like Benjamin Moore. It will never get the kind of market share as will take a Behr, which is distributed through Home Depot. We were actually offered Behr at one time. Charlie, do you remember that one?

A - Charlie Munger {BIO 1406508 <GO>}

Yes, I do.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, yeah. But the company was actually investigating, and went on its way to implementing, some moves that would've, in effect, gutted, or we felt would drastically hurt the dealers and violate the pledge that I'd made to them back when we bought it.

So, we did have a change there. And we will -- we will not follow the Sherwin-Williams path, which is a very -- I mean, it's a very effective business strategy. I'm not knocking that at all, but that is not our strategy. Our strategy will be a dealer strategy, focused on the high end of the market.

A - Charlie Munger {BIO 1406508 <GO>}

Besides, it's worked very well.

A - Warren E. Buffett {BIO 1387055 <GO>}

Oh, yeah, it's worked well, and it'll continue to work well. It doesn't mean that Sherwin-Williams won't do extremely well. I think they will. It doesn't mean that Behr won't do well. I think they will.

But we are in a different segment and it's up to us to protect and really foster the dealer distribution network, and I think we can have something, and do have something, very special with those dealers and with the position that Benjamin Moore has.

But it will not lead to far higher market shares or anything. I think it will lead -- and it has -- to very decent profitability. Benjamin Moore is a good business, and I think it will continue to be a good business. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I agree totally. I always wish we could buy five more like it tomorrow.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, exactly. Okay. Station 5.

Q - Analyst

Derek Foster, Ottawa, Canada. First of all, thank you, Warren, for sharing all your information. You've changed my life. I took finance in university, couldn't understand Greek formulas, but now I can invest reasonably well.

My question to you is, in the past you've said for an investor, you should simply -- for 99% of investors -- you should simply stick money in an index fund and let it go and don't worry about it. That 1% of investors, chooses your best five stocks and put a substantial amount of money in it. I'm just wondering, how about a strategy of, perhaps, buying 20 of the best stocks in America, Procter & Gamble, Coca-Cola, Johnson & Johnson, whatever, the companies that have been around for centuries -- or a century or decades or whatever -- and just leaving it at that.

Do you think that that would outperform an index fund over the long term? And I want Charlie's opinion as well.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I don't know whether you're saying the 20 largest companies or the 20 best. You might get different thoughts from different people on what they are. But I think you would -- probably the 20 you would pick would virtually match the results of an index fund. Who knows exactly which ones would be the best?

But the real distinction -- and Graham made this in his book, basically -- is between the person who is going to spend an appreciable amount of time becoming something of an expert on businesses, because that's what stocks are, or the person who is going to be busy with another profession, wants to own equities, and actually will do very well in equities. But the real problem they have is that they may tend to get excited about stocks at the wrong time.

They, really, the idea of buying an index fund over time are not to buy stocks at the right time or the right stocks. It's to avoid buying them at the wrong time, the wrong stocks. So equities will do well over time, and you just have to avoid getting -- getting excited when other people are excited, or getting excited about certain industries when other people are, trying to behave like a professional when you aren't spending the time and bringing what's needed to the game to be a professional.

And if you're an amateur investor, there's nothing wrong with being an amateur investor, and you just simply -- you've got a very logical, profitable course of action available to you, and that is simply to buy into American business in a broadly diversified way and put your money in over time.

So, I would say your group of 20 will probably match an index fund, and you'll probably do well in that, and you will do well in an index fund. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I have nothing to add. I do think it's -- that knowing the edge of your own competency is very important. If you think you know a lot more than you do, well, you're really asking for a lot of trouble.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. And that's true outside of investments, too.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. Works particularly well in matrimony.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do you want to give any other advice on that subject?

A - Charlie Munger {BIO 1406508 <GO>}

No.

A - Warren E. Buffett {BIO 1387055 <GO>}

He gave it in the movie. I saw people taking notes. Okay. Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from James Broadbent Harris of Columbus, Ohio. He says that your enormously generous multibillion charitable gifts of Berkshire Hathaway stock over the past decade have, and will continue to be, sources of salable assets for the charities linked to the Buffett, Gates, and Munger families.

Could annual sales of billions of dollars' worth of donated stock by these charitable foundations be a reason why shares have traded under 120% of book value, and will announced share repurchase plans fully address this selling by the charitable funds in the coming decade?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I give away 4.75% of my stock, we'll say, every year, and let's say that's $2 billion worth of stock, roughly. That's 1% -- a little less than 1% -- of the market value of Berkshire.

Many companies in the New York Stock Exchange trade over 100% a year. A 1% sale annually of the outstanding capitalization is absolutely peanuts, and you can even argue, in some cases, that it can aid, in terms of market price, because the availability of stocks sometimes determines whether people get interested in buying.

But a supply of 1% annually is not going to change the level at which a stock trades. I mean, it just its insignificant compared to the volume. Berkshire -- I think Berkshire's volume, A and B combined, is -- probably averages, what, $400 million or $500 million a day, so $2 billion spent over a year is not going to affect things.

And you can argue that, everybody else has a right to sell their stock or give it to a charity. I don't think I should be totally tied up, in terms of being able to give the stock away. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, there's nothing so insignificant as an extra $2 billion to an old man.

A - Warren E. Buffett {BIO 1387055 <GO>}

I've never given away a penny that in any way changed my life. Have you, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I know. No. Well of course not.

A - Warren E. Buffett {BIO 1387055 <GO>}

We never even thought of it.

A - Charlie Munger {BIO 1406508 <GO>}

It would be unthinkable.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's -- it has a lot more utility in the hands of other people than it does in my safe deposit box. Okay. Cliff?

Q - Cliff Gallant {BIO 1854853 <GO>}

Looking over your first quarter results in the 10-Q, I was wondering -- and this might apply more to the non-insurance businesses -- what are you seeing in terms of reading the tea leaves for the U.S. economy right now? Are you starting to see lift? And I'm curious if you have any -- if you feel any -- need to start to expand Berkshire internationally outside of the U.S.?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we're willing to go, anyplace where we think we understand what things are -- in a reasonable way-- what things are going to look like in five or 10 years, and where we get our money's worth, and good management, and all of the things that we emphasize.

But -- so we don't -- we've never foreclosed anything, but we're going to find most of our opportunities in the United States. It's just the nature of things that this is a huge, huge market for businesses, and we're better known here. But, most of our deals will take place here, but we find things outside the United States, particularly in terms of bolt-on acquisitions.

In terms of current business, ever since the fall of 2009, coming on four years, we've seen a gradual improvement. And sometimes people have gotten encouraged to think it was speeding up quite a bit, and then they get feeling that -- they start talking about a double-dip, which I've never believed in and hasn't happened.

What we see overall is just a slow progress in the American economy. You saw those figures on carloadings for the first 17 weeks. And, we were up 3-and-a-fraction percent, but the other railroads were up 4/10 of a percent, so the industry as a whole might be up 1% or thereabouts, a little over 1%.

This economy is not -- for the last four years -- it's not come roaring back in any way, shape, or form. It's never faltered, and I wouldn't be surprised if it keeps going this way. Now, finally, the overhang in housing ended -- it ended about a year ago -- but -- so we're starting to get -- we're seeing some recovery in home prices, which has a big psychological effect, and we're seeing some improvement in construction.

But we don't want to start overbuilding again. We really want to have housing starts that more or less equal household formation. And I think we're seeing that. So if you ask me where we're going to be when we meet here next year, I think we will have moved forward. But I don't think it will be in any surge of any sort, but I don't think we'll stall, either. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, it's not a field where --

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

-- I've been good.

A - Warren E. Buffett {BIO 1387055 <GO>}

We do know what's going on now, though. I mean we have a pretty --

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, we know what's going on now.

A - Warren E. Buffett {BIO 1387055 <GO>}

And I guess that ends it?

A - Charlie Munger {BIO 1406508 <GO>}

Can't make a lot of money knowing what's going on now.

A - Warren E. Buffett {BIO 1387055 <GO>}

And you can't make a lot of money thinking what's going to go on tomorrow if you don't, either.

A - Charlie Munger {BIO 1406508 <GO>}

Oh yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

We will -- we'll just keep -- we keep playing the game. I mean --

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, we keep playing the game.

A - Warren E. Buffett {BIO 1387055 <GO>}

And if we hear about something tomorrow that we can spend $15 billion or $20 billion on and we feel we like the business, United States or otherwise, we'll move in an instant, and if we don't, we won't do anything.

And we just never know when opportunity is going to come along, but it does come along from time to time. And sometimes in financial markets, it comes in a huge way. I mean, that will happen from time to time.

We may not see very many more, but most of the people in this room will see four or five times in their -- during their lifetimes -- they will see incredible opportunities offered in -- probably in equity markets -- but maybe in bond markets as well.

People -- things will happen, and then, you have to be able to act, and then you have -- and that means both in terms of having the ability and also having the mental fortitude to jump in when most people are jumping out. Okay. Station 6. Charlie, you want to --

A - Charlie Munger {BIO 1406508 <GO>}

No.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 6.

Q - Analyst

Hi. Brandon from Los Angeles. I'm in my 20s and I'm starting a partnership. What advice do you have about getting people to put in money before I have a track record as a solo investor?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, you haven't sold me. No, I think people should be quite cautious about investing money with other people, even when they have a track record, incidentally. There are a lot of track records that don't mean much.

But overall, I would advise any young person that wants to manage money, and wants to attract money later on, to start developing an audited track record as early as they can. I mean, it was far from the sole reason, far from the sole reason, that we hired Todd and Ted, but we certainly looked at their record, and we looked at a record that we both believed and could understand, because we see a lot of records that we don't really think mean much.

I mean, if you get -- if you have a coin flipping contest, as I wrote, some years ago, and you get 310 million orangutans out there and they all flip coins and they flip them 10 times, you will -- instead of having 300 million left, you'll have 300,000, roughly, left that'll flip ten times in a row successfully. And those orangutans will probably go around trying to attract a lot of money to back them in future coin flipping contests.

So it's our job when we hire somebody to manage money to figure out whether they've been lucky coin flippers or whether they really know what they're --

A - Charlie Munger {BIO 1406508 <GO>}

When you had his problem, didn't you scrape together about $100,000 from a loving family?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, I hope they kept loving me after they gave me the money. That was --

Well, it was very slow, and it should have been very slow. As Charlie has pointed out, some people thought I was running a Ponzi scheme, probably, there. And other people may not have thought it, but it was to their advantage to sort of scare people because they were selling investments in Omaha.

But you -- to attract money, you should deserve money, and you should develop a record over time that -- and then you should be able to explain to people why that record is a product of sound thinking rather than simply being in tune with a trend or simply just being lucky.

Charlie? You're starting today and you're 25 years old. How do you attract money?

A - Charlie Munger {BIO 1406508 <GO>}

I think most people start with friends and family, or people whose trust they've already earned in some other way. So it's hard to do when you're young, and that's why people start so small.

A - Warren E. Buffett {BIO 1387055 <GO>}

And a relatively few will be successful.

A - Charlie Munger {BIO 1406508 <GO>}

That's right, too.

A - Warren E. Buffett {BIO 1387055 <GO>}

Some of them -- a great many will be successful and make -- I mean, you know, we have the hedge fund record here. And during that time, the hedge fund managers have probably made a very considerable amount of money.

As I pointed out, Todd and Ted, working under a 2 and 20 arrangement, if they put the money in a hole in the ground, would make $120 million each this year. So it's not exactly an arrangement that you don't want to think about a little bit before you engage in it.

A - Charlie Munger {BIO 1406508 <GO>}

The arithmetic attracts many of the wrong sort of people.

A - Warren E. Buffett {BIO 1387055 <GO>}

Naturally, we thought we were exceptions.

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Andrew?

Q - Analyst

Okay. At Berkshire, there is a unique dynamic that exists between your recognition of Ajit's special skills and Ajit's special skills. You comment often about how unique Ajit's skills are. So just tell us, is Ajit your successor? And if not, what happens to Ajit's businesses without Ajit?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, they won't be without Ajit for a long time. And he -- what -- he's remarkable in many ways, but one of the ways he's particularly remarkable is that when people start copying something he's doing and turning what was maybe quite profitable into something that becomes something every Tom, Dick, and Harry is doing, he figures out new ways to do business. And I noticed you started with the 'A's when you started on a possible successor with Ajit, and you won't have any more luck when you get to the 'B's. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think the basic answer is that if Ajit ever is not with us --

A - Warren E. Buffett {BIO 1387055 <GO>}

We won't look as good.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, we won't look as good, right.

A - Warren E. Buffett {BIO 1387055 <GO>}

And that's true of a number of other managers, too. We have an extraordinary group of people, in most cases, who do not need the money that they earn working for us. They may make substantial money. And they are doing a job for you shareholders and for me and Charlie that you can almost say we don't deserve.

But they are having -- I think they're having -- a good time running their businesses. The one thing we do is try and create an atmosphere where they can enjoy running the businesses rather than spend all their time running back and forth to headquarters and doing show-and-tell operations and that sort of thing. And it's taken a long time, though, too. I mean, we operated Berkshire for 20 years without Ajit. If he'd come in the office in 1965 instead of 1985, we'd probably own the world. Kind of fun to think about, isn't it? Charlie? Doug?

Q - Analyst

Howard, like you, I have two sons that I love. Like you, I have a son in the audience today. This question is not meant to be disrespectful --

A - Warren E. Buffett {BIO 1387055 <GO>}

Sounds like it's going to be, but go ahead.

Q - Analyst

But it's a question I have to ask.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay.

Q - Analyst

Someday your son, Howard, will become Berkshire's Non-Executive Chairman. Berkshire is a very complex business, growing more complex as the years pass. Howard has never run a diversified business, nor is he an expert on enterprise risk management. Best as we know, he hasn't made material stock investments, nor has he ever been engaged in taking over a large company. Away from the accident of birth, how is Howard the most qualified person to take on this role?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, he's not taking on the role that you described. He is taking on the role of being Non-Executive Chairman in case a mistake is made in terms of who is picked as a CEO. I don't -- I think the probabilities of a mistake being made are less than 1 in 100, but they're not 0 in 100. And I've seen that mistake made in other businesses.

So it is not his job to run the business, to allocate capital, do anything else. If a mistake is made in picking a CEO, having a Non-Executive Chairman who cares enormously about preserving the culture and taking care of the shareholders of Berkshire, not running the business at all, it will be far easier to then make another change. And that -- he is there as a protector of the culture, and he has got an enormous sense of responsibility about that, and he has no illusions about -- at all -- about running the business.

He would have no interest in running the business. He won't get paid for running the business. He won't have to think about running the business. He'll only have to think about whether the board and himself -- but as a member of the board -- but whether the board may need to change the CEO. And I have seen many times, really many times, over 60-

plus years or -- well, probably 55 years as a Director -- times when a mediocre CEO, likable, not dishonest, but not the person who should run it, needs to be changed.

And it's very, very hard to do when that person is in the Chairman's position. It's not as -- it's a bit easier now that you have this procedure where the board meets at least once a year without the Chairman present. That's a very big improvement, in my view, in corporate America. Because it -- a board is a social institution, and it is not easy for people to come in, we'll say, to Chicago or New York or Los Angeles once every three months, have a few committee meetings, and maybe have some doubts about whether they've really got the right person running it.

They may have a very nice person running it, but they could do better. But who's going to make a change? And that's the position that the Non-Executive Chairman, in this case, Howard, will be in. And I know of nobody that will feel that responsibility more in terms of doing that job as it should be done than my son, Howard.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. I think the Mungers are much safer -- with Howard there. You've got to remember, the board owns a lot of stock. We're thinking about the shareholders. We're not trying to gum it up for the shareholders.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. After my death, whatever it may be in terms of value then, but it would be $50 billion worth of stock, well, over a period of time, go to help people around the world and it makes an enormous difference, whether the company behind that stock is doing well or not.

And both Charlie and I have seen -- we've seen some -- more than one example -- of where a CEO who might be a six on a scale of 10, and is perfectly likable and has, perhaps, helped select some of the directors that sit there, and continues to run the business year after year when somebody else could do it a whole lot better.

And it can be hard to make that -- very hard to make that change if that person controls the agenda and, keeps everybody busy when they come into town for a little while.

A - Charlie Munger {BIO 1406508 <GO>}

You can have a CEO that's nine out of 10 on everything but with deep flaws, too.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

It helps to have some objective person with a real incentive sitting in the position Howard will be in.

A - Warren E. Buffett {BIO 1387055 <GO>}

The example I've used in the past, I mean, that -- that blessed are the meek for they shall inherit the earth, but after they inherit the earth, will they stay meek? Well, that could be the problem, if somebody got named CEO of Berkshire. It could be a position where people might want to throw their weight around in various ways.

You may have noticed that in the annual report, in terms of our newspapers, I said, I am not going to be telling them who to endorse for president. Ten of them endorsed Romney and two endorsed Obama. I voted for Obama, but I'm not going to change that.

But when I write that sort of thing, I'm trying to box in my successor, to some degree, too, and we do not want somebody using Berkshire Hathaway as a power base in the future. We want them to be thinking about the shareholders. It's that simple.

A - Charlie Munger {BIO 1406508 <GO>}

Sometimes somebody becomes CEO who has the characteristic of a once-famous California CEO, and they used to say about him he's the only man who could strut sitting down. Okay. Station 7.

Q - Analyst

Hi. I'm Brad Johnston from Minneapolis, Minnesota. And my question is within the context of a very low interest rate environment that may be sustained for some time and the challenge that insurance companies are facing in that environment with respect to managing their capital, as well as managing their risk and uncertainty when they have future liabilities and potentially the need for liquidity.

And maybe you could transcend that down to the individual, as well, who is dealing with a low interest rate environment, trying to manage uncertainty and yet still get some cash return from investments. I appreciate your concept of selling, some of your shares periodically and being better off to do that rather than take dividends, but many people are dealing with the challenges of cash flow.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

Q - Analyst

And then -- and just one final tag-on. If you could at the end, could you explain what Federal Reserve Chairman Ben Bernanke believes he has as a tool in his toolbox called the "term credit facility"?

A - Warren E. Buffett {BIO 1387055 <GO>}

No. The answer is I can't. Can you, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

No.

A - Warren E. Buffett {BIO 1387055 <GO>}

The problem faced by people who have stayed in cash, or cash equivalents, or short-term Treasurys, or whatever, I mean, it is brutal.

The loss -- if they live off their income -- the loss of purchasing power, it's just staggering when you get into these low interest rates. They are the huge victims of a low-interest policy and a dramatically low-interest policy.

Basically, I've written -- I wrote back in 2008 to own equities. I mean, it was -- equities were cheap.

And you were almost certain to get killed, in terms of -- for at least a while -- we had a promise that the Fed was going to hold rates very low, so it was a great time to own equities. And I feel sorry for people that have clung to fixed-dollar investments, particularly short-term ones, during a period like this, and I don't know what I would do if I were in that position.

Imagine having, some sum that seemed like a very large amount of money in the past but, a quarter of a percent on $1 million is $2,500 a year, and that is not what people anticipated when they were saving over the years. So I -- well, anybody I've advised, I've always felt that owning businesses certainly made sense -- more sense -- than fixed dollars, under most circumstances.

Not every time in my life, but probably 90% of the time in my life, it's made more sense than owning fixed-dollar investments. And it's certainly made dramatic sense a few years ago when equities were marked down to where they were, terrific buys, and where you could see the prospect that fixed-dollar investments were going to pay very little for a considerable period of time.

And I didn't anticipate that we would see the kind of rates for the extended period that we have already, and I don't know how long it will go on. But it's a real dilemma for people. I get letters -- I get a lot of letters -- from people that say, I've got $300,000, and they say, What should I do?

So it's -- the fallout from low interest rates has hit millions of people in a very harsh way. And you don't read much about it and they don't have much of a voice, but it's been a good argument for owning productive assets rather than dollars during a period like this. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, they had to hurt somebody, and the savers were convenient.

A - Warren E. Buffett {BIO 1387055 <GO>}

What would you do about it?

A - Charlie Munger {BIO 1406508 <GO>}

I would've done about what they did.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, so would I.

A - Charlie Munger {BIO 1406508 <GO>}

I would've felt bad about it, but I would have -- that's what I would have done.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 8. We're now going to the shareholder base. We've gone through the panels, and we've got about 45 minutes left and so we're going to give the shareholders a chance to ask -- answer -- to ask all the questions -- maybe answer them -- ask all the questions from this point. Station 8.

Q - Analyst

Hi. Chris Hu from Tokyo, Japan. Can you talk a little bit more about the IBM investment? Where do you see the moat for that business? And just in the spirit of full disclosure, I work for Microsoft.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Was your -- what was your -- the moat about which business?

Q - Analyst

IBM.

A - Warren E. Buffett {BIO 1387055 <GO>}

Oh, IBM. Well, I would say that I do not understand the moat around an IBM as well as I understand the moat around a Coca-Cola. I think I have some understanding of it, but I feel I would have more conviction about the moat around a Coca-Cola, or a Wrigley or a Heinz, for that matter, than an IBM.

But I feel good enough about IBM that we've put a considerable amount of money in it. And there's nothing that precludes both Microsoft, which you mentioned, and IBM being successful. In fact, I hope they both are.

We -- I've got enough conviction about IBM's position that we took a very large position. I like their financial policies. I think the odds are good that their position is maintained in a strong way over time, but I don't feel the same degree of conviction about that as I do about the BNSF railroad. I mean, you know, it's very hard for me to think of anything that could go wrong with BNSF. I could think of some things that could go wrong with IBM.

They, incidentally, have a very large pension obligation. Now, they have a large pension fund, too, but you're talking $75 billion or $80 billion of assets and liabilities that, is a big -- it is a big annuity company on the side.

And you can have -- balls can take funny bounces in the annuity field. I would rather they didn't have that, but that is a fact that I take into consideration when I buy. They show the assets and liabilities of being roughly equal, but the liabilities are a lot more certain than the assets over time. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. Well, at least the IBM pension plan has the resources of IBM. Suppose you're a big life insurance company now. All over the world, the life insurance companies have started to suffer the tortures of hell.

In Japan, they agreed to pay 3% interest, and, of course, there was no way to earn 3% interest once the Japanese policies had been in place a long time. A whole lot of once revered, secure places look unsecure now.

And around Berkshire, you'll notice the life operations are -- where we have our own policies as distinguished from reinsurance -- are pretty small, right?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We do not like giving options in this world, and people tend to -- well, particularly they've got a sales force pushing them on, as you have in the life insurance industry. They have tended to give people options that have, in certain cases, cost them huge amounts of money.

It's -- you always want to accept an option; you never want to give an option. But the life business is in just the reverse side of that. Actually, the mortgage business -- I mean, Charlie and I were in the savings and loan business. The idea of giving somebody a 30-year mortgage where they can -- if it's a good deal for you -- they can call it off tomorrow, and if it's a good deal for them, they keep it for 30 years.

Those are terrible instruments. They're good for you if you're buying a house, and I recommend that you -- I recommend everybody in this room get a 30-year mortgage immediately on a house for all they can.

If it's a bad deal and rates go to 1%, you can refund it. If rates go to 6% or 7%, maybe you can buy it back for $0.70 on the dollar or something of the sort. So the life companies have engaged in that big time -- big, big time -- in the last few decades, and a lot of them are paying the price, and some of them haven't even realized exactly quite what the problems are.

They're kind of like the fellow in the switchblade fight, you know, where the other guy takes a big swipe at him with a switchblade and the fellow says, You didn't touch me, and the other guy says, Well, just wait until you try and shake your head. Well, that's a little bit like where some of the life companies are right now.

Charlie? Anything further, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

No, that's gloomy enough.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 9.

Q - Analyst

Hi. My name is Masato Muso. I'm from Los Angeles, California, and an MBA student at Boston University.

You have mentioned that you are 85% Benjamin Graham and 15% Phil Fisher, and you have also said that if you only had $1 million today, you could generate 50% returns. Since I'm a young investor, this is my question for the both of you: how was your investment strategy different when you were still accumulating money as opposed to managing billions? Did you focus on specific industries, small cap, large cap, et cetera? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, managing a million dollars is an entirely different game than running Berkshire Hathaway, or running some $20 billion or $50 billion fund of money.

And if Charlie and I were running a million dollars now or 100,000 or -- we would be looking in some -- we'd be looking at some -- probably some very small things. We would be looking for small discrepancies in certain situations. And the opportunities are out there, and periodically, they're extraordinary.

But that's something we really don't think about anymore because our problem is handling $12 billion or $14 billion, or whatever it might be, coming in every year, and that means we have to be looking for very big deals and forget about what we used to do when we were very young. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. I'm glad I'm through with that particular problem.

A - Warren E. Buffett {BIO 1387055 <GO>}

He worked pretty hard at it when --

A - Charlie Munger {BIO 1406508 <GO>}

Yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

We both did.

A - Charlie Munger {BIO 1406508 <GO>}

Did we ever.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, yeah. We looked under a lot of rocks, and --

A - Charlie Munger {BIO 1406508 <GO>}

I used to make big returns on my float on my own income taxes. Between the time I got the money and I paid it to the government, I frequently made enough money to pay the tax. It was working for small amounts of money and doing it on most things.

A - Warren E. Buffett {BIO 1387055 <GO>}

He didn't tell me how to do it, though. Okay. Station 10.

Q - Analyst

Hi, Warren and Charlie. This is Andy Ling from Shanghai, China. Thank you very much for what you have said and what you have done. People around the globe have benefited a lot from your philosophies, so you have fans -- even a lot of fans -- even in China.

My question is: how did you see investments in emerging markets where Berkshire is spend its investments in places like China? If yes, what kind of industries and companies you are interested in? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We don't really start out looking to either emerging markets or specific countries or anything of the sort. We may find things, as we go around, but it isn't like Charlie and I talk in the morning and we say, it's a particularly good idea to invest in Brazil or India or China or whatever it may be. We've never had a conversation like that, have we, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

No.

A - Warren E. Buffett {BIO 1387055 <GO>}

It just won't happen. We don't think that's where our strength is. We know that our strength is not there. And we think, probably, most people's strength isn't there either. I mean, it sounds good, but I don't really think it's the best way to look at investments.

If you told me that we could only invest -- We're perfectly willing to do it. We owned a lot of PetroChina at one time. We own some BYD now. We've owned securities outside the United States and will continue to. But if you told us that we could only invest in the United States the rest of our lives, we would not regard that as a huge hardship, would we, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. It's a great way to sell an investment advice, to have a whole lot of different categories, lots of commissions, lots of advice, lots of action. And a lot of things we just -- we don't feel we've got enough of an edge so that we want to play.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. When we hear somebody talking concepts, of any sort, including country-by-country concepts or whatever it might be, we tend to think that they're probably going to do better at selling than at investing.

It's just such an easy way -- I mean, it's what people expect to hear when -- when somebody comes calling that, today we think you ought to be looking at this or that around the world. The thing to do is just find a good business at an attractive price and buy it.

A - Charlie Munger {BIO 1406508 <GO>}

Our experts really like Bolivia. And you say, Well, last year you liked Sri Lanka. It's just -- we're not comfortable with that.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. And we usually think it's a lot of baloney, but --

A - Charlie Munger {BIO 1406508 <GO>}

That's why we're not comfortable.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Okay. Station 11.

Q - Analyst

Hello, Mr.Buffett, and Mr.Munger. My name is Brandt Hooker from Los Angeles. I want to thank you both, first of all, for all the years of advice and your financial philanthropy, as well as your education and/or knowledge philanthropy you've given to so many investors around the world.

And my question is: the U.S. government was seemingly complicit in enticing the American public to buy a home, and, therefore, a mortgage, at any cost. Do you think our legislators are doing the same thing now, and are we creating a bubble?

A - Warren E. Buffett {BIO 1387055 <GO>}

No. I don't think we're remotely near a bubble, in terms of housing, now.

And I certainly think that your statement is accurate but not complete, in terms of what went on before. I mean, the whole country, almost, every -- really kind of went crazy in terms of housing. And the government was a very big part of it because they're a very big part of the financing of it. And it's certainly true that plenty of legislators were encouraging Freddie and Fannie to be doing things that they shouldn't have been doing, not just in retrospect. I mean, if you looked at it at the time, you could come to that conclusion.

But there were an awful lot of people doing the same thing. I mean, it was coming from all sources. And it had that aspect to it, which bubbles do, where year after year for three or four or five years, whatever it might be, that the skeptics looked like idiots and that the people who jumped on the bandwagon were the ones that were refinancing their houses at ever higher prices and people who were speculating on other houses.

So, it just looked all so wonderful. And people are really susceptible to that sort of bandwagon effect where they see their neighbors making easy money, everybody's making easy money but them, and they finally succumb.

It's just -- it's the nature of things. And it doesn't mean the people at Freddie or Fannie were necessarily evil -- a few of them were -- or that legislators, necessarily, were evil, although, again, a few of them probably were. But overwhelmingly, I think most people just get caught up in a grand illusion.

And, it's happened many times in history, it'll happen again, and you can use that very much to your profit. We're not in that kind of a period now on housing. You've got very, very low interest rates, which support, in many cases, the purchase of houses, because it brings down the payments, obviously.

But I personally, about a year ago, I mean, I recommended to people that they buy houses, and I certainly recommend to people that they finance them now. And most places I would recommend if you find a -- if you're going to live in the community for some time and you find a house that fits your needs, I think it's probably a very good time to buy it, in part because the financing is so unbelievably attractive.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, the main problem was that as things got crazier and crazier, the government could've intervened by pulling away the punch bowl before everybody was totally drunk, and instead, the government increased the proof. And this was not a good idea. But you -- it's hard to get governments in a democracy to be pulling away the punch bowl from voters who want to get drunk.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it's almost impossible.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I mean, it isn't --

A - Charlie Munger {BIO 1406508 <GO>}

So you're complaining a little bit about what's sort of inevitable in life. Not too good an idea.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. You'll see it again, not necessarily in housing, but you will see it. And humans will continue to make the same mistakes that they have made in the past.

I mean, they get fearful when other people are fearful. I mean, that's -- you saw it in those money market funds when 175 billion, flowed out in three days. I mean, everybody gets -- when people get scared, they -- it's very, very pervasive.

I've often thought that, if I owned a bank in a two-bank town, I'd -- if I were inclined to -- I might hire a whole bunch of Hollywood extras to form a line in front of the other guy's bank. The hell of it is that they -- you know, as soon as they got through forming a line there, they'd start forming a line at my bank because they -- people really get -- they get fearful en masse. Confidence comes back sort of one at a time, but when they get greedy, they get greedy en masse, too.

I mean, it just -- it's just the way the humans are constructed. That's where Charlie and I have an edge. We don't have an edge, particularly, in many other ways. But we are able, I think, perhaps better than most, to not really get caught up with what other people are doing. And, I don't know whether we learned that over time or what.

But when we see falling prices, we think it's an opportunity to buy, and it doesn't bother us. Now, we don't own things on margin or, we don't get ourselves in a position where somebody else can pull the rug out from under us. That's enormously important in life. You never want to, get out on a limb. And, of course, leverage gets very tempting when things are going up. And leverage was what was introduced into housing in a huge, huge way. I mean, people just felt that you were an idiot if you didn't keep borrowing more on your house, and using that to buy more houses, or using it to live on, or whatever, and then finally the roof fell in. Charlie?

Okay. Station 1.

Q - Analyst

Hi, Warren. Hi, Charlie. My name is George Islets from Cologne. Do you see investment opportunities in the eurozone? For example, extending your stake in Munich Re? Do you trust in the policy of the ECB to bring the things together? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, we're perfectly willing to look at business opportunity in the eurozone, and we bought a couple of bolt-on acquisitions, one for a couple hundred million in the farm equipment area. And we'll be happy if we find a business in any one of the 17 countries tied to the euro. There might be a few of them we may be a little less inclined than others.

But it may create opportunities for us to buy businesses. We'd be happy to. Europe is not going to go away. But the European monetary union was, had a major flaw, and they're grappling with a way to correct that flaw. And with 17 political bodies and a lot of diverse cultures, it's really tough for them to do so.

They'll do it in time, in my view. But essentially they synchronized a currency without synchronizing much else. And nature finds the fatal flaw always, and so does economics, and they found it fairly quickly, in terms of the euro. And the structure that was put in place will not work, and they'll have to find something that does work. And they will, eventually, but they may go through a fair amount of pain in the process.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. Structured as Europe was structured, letting in Greece into the European Union was a lot like using rat poison as whipping cream. It just -- it was an exceptionally stupid idea. It's not a responsible capitalistic country, a place where people don't pay taxes and so on and so -- it just -- and --

A - Warren E. Buffett {BIO 1387055 <GO>}

I've tried for years to get him to use Country A and Country B, but he --

A - Charlie Munger {BIO 1406508 <GO>}

-- and committed fairly extreme fraud in the course of getting into the union. They lied about their debt. And so Europe made terrible mistakes. They have politicians, too.

A - Warren E. Buffett {BIO 1387055 <GO>}

You think it'll be behind them in ten years?

A - Charlie Munger {BIO 1406508 <GO>}

I think Europe will muddle through.

A - Warren E. Buffett {BIO 1387055 <GO>}

Sure.

A - Charlie Munger {BIO 1406508 <GO>}

Think what Europe has already muddled through.

A - Warren E. Buffett {BIO 1387055 <GO>}

But we would be delighted, even with that dire forecast, not overly -- we would be delighted, tomorrow, to buy a big business in Europe that we liked, and we'd pay cash for it.

A - Charlie Munger {BIO 1406508 <GO>}

I hope you'll call me if it's in Greece.

A - Warren E. Buffett {BIO 1387055 <GO>}

I make these small suggestions, but you can see it doesn't help much. Okay. Station 2.

Q - Analyst

Hi. I'm David Yarus from Miami Beach, Florida. On behalf of the internet, welcome to Twitter. And my question is: how has social media impacted your business and any Berkshire companies, and what impact do you see it having on the world in the short and long term?

A - Warren E. Buffett {BIO 1387055 <GO>}

Probably half the people or more in this audience could answer that question better than I can. It has -- certainly in a place like GEICO, we are -- it makes a difference, and over time will make a huge difference in marketing, just as the internet made a change.

I mean, GEICO was founded in 1936 and it had a great business idea of going direct, but it did it entirely by mail, initially, and it worked very well. And then it progressed to -- as the world changed, it, you know, went to TV advertising and phone numbers and that sort of thing, and then it went to the internet, and now it goes on to social media.

So, you know, we have to listen to our customers in all our businesses. Some of them it's much more dramatic than others. And I've been amazed, at how fast the world has changed. I thought the internet, for example, in terms of GEICO, would affect younger people very quickly, in terms of their buying habits.

But the truth that it spread across the entire age range very, very quickly, a huge change. And you have to respond to that. And I am not the best person, by miles, to do that, but we have people that are very good at it at our businesses, and they're thinking about it plenty, and they'll continue to think about it. But it would be a terrible mistake to put me in charge of social media at Berkshire Hathaway. And Charlie would not be a particularly good choice, either.

Charlie, do you want to defend yourself, or --

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't understand it very well. For very good reason, I avoid it like the plague. And I hate the idea of the teenagers in my own family immortalizing for all time the three dumbest things they said when they were 13.

A - Warren E. Buffett {BIO 1387055 <GO>}

We would have been in big trouble, Charlie.

A - Charlie Munger {BIO 1406508 <GO>}

We would have been in big trouble, both of us, if that were the system. And so I think there's a time when your ignorance and folly ought to be hidden.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

I also think that when you multitask like crazy, like the young people do, none of the tasks is likely to be done well.

A - Warren E. Buffett {BIO 1387055 <GO>}

Is there anyone we've forgotten to offend? Okay. Station 3.

Q - Analyst

Hello. My name is Stuart Kaye and I work in Stamford, Connecticut. Earlier in the meeting, you said when reading over financial statements, you identified companies you were virtually certain were frauds. What was it in those financial statements that you saw that made you be so certain they were frauds?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it varies just enormously over the years, but there are -- we can't identify 100% of the frauds, or 90%, or 80%, but there are certain ones that jump out to you, just -- people give themselves away a lot, too.

I mean, in poker they talk about tells. And Charlie and I have bought a lot of businesses, and it's very important, when we buy those businesses that we assess the individuals that we're buying from with some degree of accuracy. Because, they hand us the stock certificate and we hand them a lot of money, and then we count on them to run the business with as much enthusiasm after they have the money as they did before.

And so we are assessing people. And we don't think we can assess everyone accurately. We just have to be right about the ones where we make an affirmative decision. And those decisions have not always been perfect, but they've been pretty good. And I would say they've probably gotten a little bit better, even, as the years have passed.

Similarly, in looking at financial statements -- for example, in the insurance field, we've seen some frauds, and they're -- you can see things being done with loss reserves occasionally. We saw it back in -- I won't name any names. Unlike Charlie, I don't -- we'll call them Company As and Bs instead of naming names.

But you would see companies that, when they were offering stock to the public, the year or two before that, the reserves would be down very suspiciously, and -- then -- or even when they were selling them to other insurance companies, if they were buying in stock they might be building the reserves.

But there's a million different ways. And I don't claim I know all the ways, obviously, but I have seen enough situations over the years, and I've seen how promoters act. And you can spot certain people who you know are, one way or another, playing games with the numbers. They give themselves away. But I can't give you a checklist of 40 items or something of the sort that you look for in the balance sheet or the income account or the footnotes. Charlie, can you help?

A - Charlie Munger {BIO 1406508 <GO>}

Sometimes it's pretty obvious. I once was introduced by Warren, of all people, by accident, to a man who wanted to sell us a fire insurance company. One of the first things he said, with a thick accent, from Eastern Europe, I think --

A - Warren E. Buffett {BIO 1387055 <GO>}

Don't name countries.

A - Charlie Munger {BIO 1406508 <GO>}

And I don't remember the country.

A - Warren E. Buffett {BIO 1387055 <GO>}

Good.

A - Charlie Munger {BIO 1406508 <GO>}

But what he told me was -- he says, It's like taking candy from babies, he said. We only write fire insurance on concrete structures that are underwater. And I figured out instantly that it was probably fraudulent.

A - Warren E. Buffett {BIO 1387055 <GO>}

The guy's a crook.

A - Charlie Munger {BIO 1406508 <GO>}

I'm a very acute man.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, the guy's a crook. Well, you actually -- you had some experience -- he was a lawyer in the movie industry.

A - Charlie Munger {BIO 1406508 <GO>}

Oh, my God.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. The -- when you get into accounting for -- well, movies are a good thing, in terms of how fast you write off properties, and anything where you've got construction in progress or progress payment-type things -- there's so many ways you can cheat in accounting. And financial institutions are particularly, probably, prone to it. And there's been plenty of it in insurance.

A - Charlie Munger {BIO 1406508 <GO>}

A lot of it, they're not being deliberately fraudulent, because they're deluded. In other words, they believe what they're saying.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. People like to hire them as salesmen. If you've got doubts, forget it. There's probably some reason you --

It's interesting. The accounting -- they worked harder and harder and harder at coming up with disclosures in accounting. And I'm not sure I find present financial statements more useful or, in some cases, as useful as I found them 30 years or 40 years ago. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think the financial statements of big banks are way harder to understand now than they used to be. They just do so many different things, and they've got so many footnotes, and there's so much gobbledygook, that it doesn't -- they're not my grandfather's banks.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we couldn't understand them when we owned them.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

I mean, we bought a company that -- Gen Re -- where they had 23,000 derivative contracts. And Charlie and I could've spent 24 hours a day, and had the help of 10 or 20 math Ph.Ds. And we still wouldn't have known what was going on.

It cost us about $400 million to find out, but -- and that was in a benign market. But nobody can.

A - Charlie Munger {BIO 1406508 <GO>}

And the accountants had certified the balance sheet.

A - Warren E. Buffett {BIO 1387055 <GO>}

Sure.

A - Charlie Munger {BIO 1406508 <GO>}

It's a new kind of asset I invented a name for. I said, Good until reached for.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, and you would -- you would actually -- the same auditing firm would be auditing two different companies that are on the opposite side of a derivative transaction and attesting to different values to the same contract. And Charlie found one mistake at Salomon on a derivative contract. What was it, 20 million?

A - Charlie Munger {BIO 1406508 <GO>}

No. It was a big contract, and both sides reported a large profit, blessed by their accountants, on the same contract --

A - Warren E. Buffett {BIO 1387055 <GO>}

Kind of like us and Swiss Re.

A - Charlie Munger {BIO 1406508 <GO>}

-- just for breaking it. Once people get in a competitive frenzy, things just go out of control.

A - Warren E. Buffett {BIO 1387055 <GO>}

I became the interim Chairman of -- interim CEO of Salomon in 1991, and, fortunately, I testified to both the House and Senate committee before I found this out. And, generally speaking, incidentally, Salomon wanted to have conservative accounting. I think that would be a fair statement. And in many cases did.

But they did come in to me one day and they said, Warren, you probably should know that we have this item -- and I think it was around 180 million or something like that -- with a capital base of 4 billion, maybe -- but 180 million. And they said, this is a plug number, and we've been plugging it ever since Phibro merged with Salomon in -- I guess, 1981.

For ten years, this number moved around every day. And as I remember, Phibro or some -- one of them was on a trade date system, and that was on a settlement date system. And in ten years, with Arthur Andersen as their accountant, paying a lot of money in auditing fees, they just never figured out how the hell to get the thing to balance, so they just stuck a number in every day.

And they literally plugged it for ten years, and I couldn't figure out how to unplug it myself. I mean, it was -- you almost had to start over. Didn't they do that one time out there?

A - Charlie Munger {BIO 1406508 <GO>}

We did that, Warren.

A - Warren E. Buffett {BIO 1387055 <GO>}

Right.

A - Charlie Munger {BIO 1406508 <GO>}

We had a discrepancy when we changed accounting systems in our savings and loan, and none of the accountants could fix it. So we just let it run out.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, we let the account --

A - Charlie Munger {BIO 1406508 <GO>}

We just let the account run out, and then --

A - Warren E. Buffett {BIO 1387055 <GO>}

Figured we'd start over again.

A - Charlie Munger {BIO 1406508 <GO>}

We started over, right.

A - Warren E. Buffett {BIO 1387055 <GO>}

Accounting is not quite the science that people might want you to --

A - Charlie Munger {BIO 1406508 <GO>}

In accounting, you can do things like they do in Italy when they have trouble with the mail. It piles up and irritates the postal employees. They just throw away a few carloads --

everything flows smoothly thereafter.

A - Warren E. Buffett {BIO 1387055 <GO>}

You're naming names again, folks. That happened in some unnamed international country.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, Italy.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Section 4.

Q - Analyst

Good afternoon. My name is Jerry Lucas from Newark, Delaware. You answered the question earlier about emerging markets. I just have a similar question. If you found the business that attracted you in sub-Saharan Africa, outside of South Africa, are the conditions right today to make that investment?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I might not know enough to do it myself, but I think -- and I wouldn't rule -- if it was attractive enough and I thought I understood the nature of the business, I would probably get some advice from some other people. And I might not end up doing it, but I wouldn't totally preclude it.

A - Charlie Munger {BIO 1406508 <GO>}

I saw that done. The University of Michigan hired an investment manager in London who specialized in sub-Saharan Africa. And I thought, My God, how are they doing this? What they did is the little banks would trade in the pink sheets in Africa, and the first thing people would want was not to have the money under their pillow, and they just bought all the little banks in Africa, and they made a lot of money. So it is possible, if you know what you're doing, to go into very unlikely places. I would say we're not very good at it.

A - Warren E. Buffett {BIO 1387055 <GO>}

No, that isn't our specialty, but it can be done. And if we were poor enough, we might even be thinking about doing it, right, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I don't think so.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Next year we'll prepare for this. Okay. Station 5.

Q - Analyst

Hello. I'm Marvin Blum from Fort Worth, Texas, the home to four of your companies.

A - Warren E. Buffett {BIO 1387055 <GO>}

Absolutely. We love Fort Worth.

Q - Analyst

Thank you. We love you, too, and your presence in our community. I'm an estate planning lawyer, and it's interesting as we wrap up today to ponder that the Baby Boomer generation is about to pass along the greatest transfer of wealth in history.

I can design plans that eliminate estate tax and pass down great amounts of wealth to the next generation, but many of my clients come to me and say they want a plan like Warren Buffett's, leaving their kids enough so they can do anything, but not so much that they can do nothing. Now they ask me, and I'm asking you, how much is that, and how do you keep from ruining your kids?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well.

I think more kids are ruined by the behavior of their parents than by the amount of the inheritance. Your children are learning about the world through you, and more through your actions than through your words, from the moment they're born. You're their natural teacher, and it's a very important and serious job.

And I don't think -- I don't actually think -- that the amount of money that a rich person leaves to their children is the determining factor, at all, in terms of how those children turn out. But I think that the atmosphere, and what they see about them, and how their parents behave, is enormously important. I would say this: I've loosened up a little bit as I go along.

Every time I rewrite my will, my kids are happy because they know I'm not reducing the amount, anyway. And I do something else that -- I find that -- which I think is an obvious thing, but it's amazing to me how many don't do it.

I think that your children are going to read the will someday -- that's assuming you're a wealthy person -- your children are going the read the will someday. It's crazy to have them read it after you're dead, for the first time. I mean, you're not in a position to answer questions then unless the Ouija board really works or something of the sort.

So, if they're going to have questions about how to carry out your wishes, or why you did this or that, you know, why leave them endlessly wondering after you die? So in my own case, I always have my children -- I rewrite a will every five or six years or something like that -- and I have them read it.

They're the executors under it. They should understand how to carry out their obligations that are embodied in the will, and they should -- also, if they feel there's anything unfair about it, they should express themselves before I sign that will, and we should talk it over, and we should figure out whether they're right or I'm right, or someplace in between.

So I do think it's very important in wealthy families, once the kids are of a certain age. I mean, I don't advise doing this with your 14-year-old or something, but when they get -- certainly by the time they're in the mid-30s or thereabouts -- I think they should be participants in the will. And I do think that if you get to be very wealthy that the idea of trying to pass on, create a dynasty of sorts, it just sort of runs against the grain, as far as I'm concerned.

And the money has far more utility -- the last hundreds of millions or billions have far more utility to society than they would have to make -- create a situation -- where your kids don't have to do anything in life except call a trust officer once a year and tell them how much money they want. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I don't think I want to go into this one.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay.

A - Charlie Munger {BIO 1406508 <GO>}

And I'm absolutely sure you don't want to discuss your will with your children if you're going to treat them unequally.

A - Warren E. Buffett {BIO 1387055 <GO>}

No.

A - Charlie Munger {BIO 1406508 <GO>}

That is poison.

A - Warren E. Buffett {BIO 1387055 <GO>}

But there -- one of the problems you have -- I mean, and what you want to discuss just for that very situation is there may be circumstances where one child will have much more of an interest in one type of asset than others, or something of the sort.

And you want to make sure that your definition of equality, in terms of handling different kinds of assets, meshes, or at least is understood, by the children so that they don't think the fact that you may gave one a farm and another a house or something of the sort resulted in inequality when you thought it was equality. Charlie, you got anything?

A - Charlie Munger {BIO 1406508 <GO>}

No. I'm --

A - Warren E. Buffett {BIO 1387055 <GO>}

He's staying away from this one. Okay. Station 6.

Q - Analyst

No question.

A - Warren E. Buffett {BIO 1387055 <GO>}

No questions. I like station six. Station 7.

Q - Analyst

Mr.Buffett, Mr.Munger, thanks for everything that you do for us, including advice that you give us, and also for -- as an individual investor -- for the things that you've done for me.

I have a question. You've long been against stock splits, but as you think about the Berkshire A share and one day can -- if you don't split it -- it can get to a million dollars, is the board thinking about how to deal with that, in terms of getting new stock owners, the ownership structure, and so on?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I -- we actually -- I think we've got a pretty good arrangement now. It evolved, originally, through some people that were going to try and make a lot of money off of our shareholders by creating their own split shares, so we created the B shares.

And then when the BNSF acquisition came along, we wanted to be sure that people that wanted to have a stock-free exchange, or that wanted to get shares, would not prohibit it simply because they had a small amount of BNSF, and, therefore, our B shares were too expensive. So I think now with one stock, you know, in the $100 range, people can split the -- people that own the A stock can split their stock anytime they wish.

And we've always pledged that there won't ever be this situation, but if there was some corporate transaction or anything like that, we will -- the A and B will get treated identically. And so I really see no reason to change the present situation. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I would not hold your breath until we change.

A - Warren E. Buffett {BIO 1387055 <GO>}

That may apply to almost anything in our lives. Okay, I think we'll take about a five minute or so recess, and then we'll get on to the business part of the meeting. And I thank you all for coming, and I hope you come next year.

If you'll please, take your seat, we'll get on to the Annual Meeting of Shareholders, we use the script for this. The meeting will now come to order. I'm Warren Buffett, Chairman of the Board of Directors of the company, and I welcome you to the 2013 Annual Meeting of Shareholders. This morning, I introduced the Berkshire Hathaway Directors that are present. Also, with us today are partners in the firm Deloitte and Touche our auditors. They are available to respond to appropriate questions that you might have concerning their firms audit of the accounts aperture. Forrest Carter is Secretary of Berkshire he will make a written record of the proceedings. Becky Hammock has been appointed inspector of elections at this meeting. She will certified at the count of votes cast in the election for directors and the motion to be a voted upon at this meeting. The named proxy holders this meeting are Walter Scott and Marc Hamburg. Does the secretary have a report of the number of Berkshire shares outstanding entitled to vote and represented at the meeting?

A - Unidentified Speaker

Yes, I do. As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 6th, 2013 being the record date for this meeting there were 892,657 shares of Class A Berkshire Hathaway common stock outstanding with each share entitled to one vote at motions considered at the meeting and 1,126,012,136 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to one ten-thousandth of one vote at motions considered at the meeting. Of that number 637,192 Class A shares and 691,560,484 Class B shares are represented at this meeting by proxies returned through Thursday evening, May 2nd.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you. That number represents a quorum and we will therefore directly proceed with the meeting. First order of business will be a reading of the meeting minutes of the last meeting of shareholders. I recognize Mr.Walter Scott, will place the motion before the meeting.

A - Unidentified Speaker

I move that the reading of the minutes of the last meeting of the shareholders be dispensed with and the media minutes be approved.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do I hear a second? The motion has been moved and seconded. Are there any comments or questions? We will vote on this motion by voice vote. All those in favor say, aye, opposed the motion is carried.

Next item of business is to elect, directors. If a shareholder is present who did not send in a proxy or wishes to withdraw a proxy, previously sent in you may vote in person on the election of directors and other matters to be considered at this meeting. Please, identify yourself to one of the meeting officials in the aisle, so that you made, you can receive a ballot.

I recognize Mr.Walter Scott to place a motion before the meeting with respect to election of directors.

A - Unidentified Speaker

I moved the Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guymon, Donald Keough, Thomas Murphy, Ronald Olson, Walter Scott and Merrill Whitman be elected as Directors.

I second the motion.

A - Warren E. Buffett {BIO 1387055 <GO>}

It has been moved and seconded that Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guymon, Donald Keough, Thomas Murphy, Ronald Olson, Walter Scott and Merrill Whitman will be elected as Directors.

Are there any other nominations? Is there any discussion? The nominations are ready to be acted upon, if there are any shareholders voting in person they should now mark their ballot on the election of directors and deliver their ballot to one of the meeting officials in the aisles. Ms.Hammock when you are ready and they give you a report.

A - Unidentified Speaker

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening, cast not less than 695,403 votes for each nominee that number far exceeds, a majority of the number of the total votes of all Class A, and Class B shares outstanding. The certification required by Delaware law of the precise, count of the votes will be given to the secretary to be placed with a minutes of this meeting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you Ms.Hammock very much, Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guymon, Donald Keough, Thomas Murphy, Ronald Olson, Walter Scott and Merrill Whitman have been elected as directors.

The next item of business is emotion put forth by Robert L --. The motion is set forth in the proxy statement, motion directs Berkshire Hathaway to establish quantitative goals for reduction of greenhouse gas and other emissions at its energy generating holdings and publish a report to shareholders on how it will achieve these goals. The directors have recommended the shareholders vote against this proposal. I will now recognize Bruce Herbert to present the motion to allow all interested shareholders to present their views, I asked Mr.Herbert limit his remarks to five minutes.

A - Unidentified Speaker

Good afternoon. Mr.Buffett, Mr.Munger. Ladies and gentlemen, my name is -- I am a student of economics and finance at Wartburg College in nearby Iowa. I hail from Kenya and I'm here with a group of fellow students, all of whom very much appreciate the opportunity to take part in this celebrated event. I stand on behalf of voice of Seattle to move item number 2 on Page 12 of the proxy. A proposal the Berkshire established goals for greenhouse gas reduction at its energy holdings.

We applaud MidAmerican energy for having the largest renewable energy portfolio in the entire USA. However, it is also true that MidAmerican generates close to half of its power by burning coal. Is a huge emitter of greenhouse gases. Given this fact why doesn't MidAmerican have a plan. 66 of all the U.S. electric utilities have greenhouse gas reduction goals, 66%. But MidAmerican is not among them despite publicly proclaiming that on its website and I will quote we will set challenging goals and assess our ability to continually improve our environmental performance.

As you're aware climate disruption creates, profound financial risk for the global economy as well as for Berkshire. The investor network, and climate risk, whose members managed more than $11 trillion and the carbon disclosure project whose members manage more than -- who would represent more than $80 trillion in assets globally, have called on companies to disclose risks related to climate change, as well as to take steps to reduce that risk.

In 2010, the SEC announced that climate risks are financially material and they must be disclosed. This is because high carbon path creates risk, whereby the low-carbon path is a lower risk more secure, way into the future without planning and a step a forward-looking goals neither management, nor investors can know where they stand. In addition Berkshire I have seen has been particularly vulnerable to climate disruption, why? Because many of because many of the most negative financial impacts of climate assumption are borne by insurance companies.

For example, GEICO took its largest single loss in history from Superstorm Sandy a $490 million loss to claims on more than 46,000 flooded vehicles Berkshires reinsurance business is likely to be at significant risk from the clear trends towards increasingly extreme weather. Well, some portion of this may be pushed towards clients in the form of higher premiums, it is really fair or a good long-term strategy to saddle customers with a cost of poor planning.

I'd like to conclude by recapping some of the major points hundreds of the world's largest institutional investors representing trillions of dollars of in investment assets have called on companies to set greenhouse gas reduction goals, such goals are key tools for managing the profound business risk created by climate disruption more than two-thirds of utilities have already established, such goals, and institutional proxy advisory firms, repeatedly recommend voting for goal setting and disclosure of this sort. Therefore, I urge you all to, please join us in voting for this common-sense proposal, that avoids risks, preserves profits and treats our customers fairly. Thank you very much.

Thank you, Mr.Herbert.

A - Warren E. Buffett {BIO 1387055 <GO>}

The microphone at Zone 1 is available for those wishing to speak for or against the motion. Zone 1 is the only microphone stationed in operation for benefit of those present, I ask that each speaker for against or the motion limit themselves to two minutes and confine your remarks solely to the motion. So, anyone would like to speak should go to Zone 1 where Mr.Herbert was and we'll turn the microphone over to the next speaker.

A - Unidentified Speaker

Thank you, Mr.Buffett. I believe that just burning some coal, although it is bad for the environment as long as its operating inside the EPA guidelines forward. It should be perfectly fine. That's my only view on it. Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you. Is there another speaker?

A - Unidentified Speaker

Mr.Buffett. Good afternoon. And I just want to say we know how passionate you are and such a philanthropic individual. The environment is incredibly important and on behalf of my good friend John Dore, who could not be here this afternoon, I know how passionate he is also about the environment. So, please take consideration into this man's proposal and I know you've agreed to go against his proposal, but if not this year, perhaps next year you will look at this man's initiative again. And thank you so much.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you. Thank you. Is there another speaker?

A - Unidentified Speaker

No further speakers.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you. The motion is now ready to be acted upon. If there are any shareholders voting in person they should now mark their ballots on the motion and deliver their ballot to one of the meeting officials in the aisles. Zamak when you're ready, you may give your report.

A - Unidentified Speaker

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 57,569 votes for the motion and 598,162 votes against the motion. As the number of votes against the motion exceeds, a majority of the number of votes of all Class A, and Class B shares outstanding. The motion has failed, the certification required by Delaware law of the precise account of the votes will be given to the secretary to be placed with the minutes of this meeting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Ms.Zamak. The proposal fails. Does anyone have any further business to come before this meeting before we adjourn? If not, I recognize Mr.Scott to place a motion before the meeting.

A - Unidentified Speaker

I move this meeting be adjourned.

I second.

A - Warren E. Buffett {BIO 1387055 <GO>}

Motion adjourned has been made and seconded. Will vote by voice, is there any discussion. If not, all in favor, say, aye, who oppose say, no. This meetings adjourned. Thank you. Come back.