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To My Partners:

About eighteen months ago I wrote to you regarding changed environmental and personal factors causing me to modify our future performance objectives.

The investing environment I discussed at that time (and on which I have commented in various other letters) has generally become more negative and frustrating as time has passed. Maybe I am merely suffering from a lack of mental flexibility. (One observer commenting on security analysts over forty stated: "They know too many things that are no longer true.")

However, it seems to me that: (1) opportunities for investment that are open to the analyst who stresses quantitative factors have virtually disappeared, after rather steadily drying up over the past twenty years; (2) our \$100 million of assets further eliminates a large portion of this seemingly barren investment world, since commitments of less than about \$3 million cannot have a real impact on our overall performance, and this virtually rules out companies with less than about \$100 million of common stock at market value; and (3) a swelling interest in investment performance has created an increasingly short-term oriented and (in my opinion) more speculative market.

The October 9th, 1967 letter stated that personal considerations were the most important factor among those causing me to modify our objectives. I expressed a desire to be relieved of the (self-imposed) necessity of focusing 100% on BPL. I have flunked this test completely during the last eighteen months. The letter said: "I hope limited objectives will make for more limited effort." It hasn't worked out that way. As long as I am "on stage", publishing a regular record and assuming responsibility for management of what amounts to virtually 100% of the net worth of many partners, I will never be able to put sustained

effort into any non-BPL activity. If I am going to participate publicly, I can't help being competitive. I know I don't want to be totally occupied with out-pacing an investment rabbit all my life. The only way to slow down is to stop.

Therefore, before yearend, I intend to give all limited partners the required formal notice of my intention to retire. There are, of course, a number of tax and legal problems in connection with liquidating the Partnership, but overall, I am concerned with working out a plan that attains the following objectives:

1. The most important item is that I have an alternative regarding money management to suggest to the many partners who do not want to handle this themselves. Some partners, of course, have alternatives of their own in which they have confidence and find quite acceptable. To the others, however, I will not hand over their money with a "good luck". I intend to suggest an alternative money manager to whom I will entrust funds of my relatives and others for whom I have lifetime financial responsibility. This manager has integrity and ability, and will probably perform as well or better than I would in the future (although nowhere close to what he or I have achieved in the past). He will be available to any partner, so that no minimum size for accounts will cause any of you a problem. I intend, in the future, to keep in general touch with what he is doing, but only on an infrequent basis, with any advice on my part largely limited to a negative type.

2. I want all partners to have the option of receiving cash and possibly readily marketable securities (there will probably be only one where this will apply) where I like both the prospects and price but which partners will be able to freely convert to cash if they wish.

3. However, I also want all partners to have the option of maintaining their proportional interests in our two controlled companies (Diversified Retailing Company, Inc. and Berkshire Hathaway, Inc.) and one other small "restricted" holding. Because these securities will be valued unilaterally by me at fair value, I feel it is essential that, if you wish, you can maintain your proportionate interest at such valuation.

? However, these securities are not freely marketable (various SEC restrictions apply to "control" stock and non-registered stock) and they will probably be both non-transferable and non-income-producing for a considerable period of time. Therefore, I want you to be able to.

go either way in our liquidation - either stick with the restricted securities or take cash equivalent. I strongly like all of the people running our controlled businesses (joined now by the Illinois National Bank and Trust Company of Rockford, Illinois, a \$100 million plus, extremely well-run bank, purchased by Berkshire Hathaway earlier this year), and want the relationship to be life-long. I certainly have no desire to sell a good controlled business run by people I like and admire, merely to obtain a fancy price. However, specific conditions may cause the sale of one operating unit at some point.

I believe we will have a liquidation program which will accomplish the above objectives. Our activities in this regard should cause no change in your tax planning for 1969.

One final objective I would like very much to achieve (but which just isn't going to happen) is to go out with a bang. I hate to end with a poor year, but we are going to have one in 1969. My best guess is that at yearend, allowing for a substantial increase in value of controlled companies (against which all partners except me will have the option of taking cash), we will show a break even result for 1969 before any monthly payments to partners. This will be true even if the market should advance substantially between now and yearend, since we will not be in any important position which will expose us to much upside potential.

Our experience in workouts this year has been atrocious - during this period I have felt like the bird that inadvertently flew into the middle of a badminton game. We are not alone in such experience, but it came at a time when we were toward the upper limit of what has been our historical range of percentage commitment in this category.

Documenting one's boners is unpleasant business. I find "selective reporting" even more distasteful. Our poor experience this year is 100% my fault. It did not reflect bad luck, but rather an improper assessment of a very fast-developing governmental trend. Paradoxically, I have long believed the government should have been doing (in terms of the problem attacked - not necessarily the means utilized) what it finally did - in other words, on an overall basis, I believe the general goal of the activity which has cost us substantial money is socially desirable and have so preached for some time. Nevertheless, I didn't think it would happen. I never believe in mixing what I think,

should happen (socially) with what I think will happen in making decisions - in this case, we would be some millions better off if I had.

Quite frankly, in spite of any factors set forth on the earlier pages, I would continue to operate the Partnership in 1970, or even 1971, if I had some really first class ideas. Not because I want to, but simply because I would so much rather end with a good year than a poor one. However, I just don't see anything available that gives any reasonable hope of delivering such a good year and I have no desire to grope around, hoping to "get lucky" with other people's money. I am not attuned to this market environment, and I don't want to spoil a decent record by trying to play a game I don't understand just so I can go out a hero.

Therefore, we will be liquidating holdings throughout the year, working toward a residual of the controlled companies, the one "investment letter" security, the one marketable security with favorable long-term prospects, and the miscellaneous "stubs", etc. of small total value which will take several years to clean up in the Workout category.

I have written this letter a little early in lieu of the mid-year letter. Once I made a decision, I wanted you to know. I also wanted to be available in Omaha for a period after you received this letter to clear up anything that may be confusing in it. In July, I expect to be in California.

Some of you are going to ask, "What do you plan to do?" I don't have an answer to that question. I do know that when I am 60, I should be attempting to achieve different personal goals than those which had priority at age 20. Therefore, unless I now divorce myself from the activity that has consumed virtually all of my time and energies during the first eighteen years of my adult life, I am unlikely to develop activities that will be appropriate to new circumstances in subsequent years.

We will have a letter out in the Fall, probably October, elaborating on the liquidation procedure, the investment advisor suggestion, etc.

Cordially,



Warren E. Buffett