Berkshire Hathaway Inc.

NYSE:BRK.A

Special Call

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Call Participants

EXECUTIVES

Ajit Jain
Vice Chairman of Insurance Operations & Director

Charles Thomas Munger
Executive Vice Chairman

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Howard G. Buffett
Director

Ronald L. Olson
Director

Unknown Executive

Warren E. Buffett
Chairman, CEO & President

ANALYSTS

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

SHAREHOLDERS

Adalberto Flores Ochoa

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Unknown Shareholder

ATTENDEES

Ann Winblad

Bo Clayton

Bobby Kotick

Dan Calkins
Benjamin Moore & Co.

Heihachiro Okamoto

Hugh Son

John Washington Rogers
Ariel Investments, LLC

Judd Zebersky
Jazwares, Inc.

Katie Kramer

Laura Zebersky
Jazwares, Inc.

Marvin Blum

Michael Santoli

Nirav Patel

Pat Egan

Rebecca Quick

Tom Nelson

Troy Bader

Unknown Attendee

Presentation

Rebecca Quick

Welcome to CNBC's live stream of the Berkshire Hathaway 2023 Annual Meeting. We are here live in Omaha, Nebraska.

Good morning, everybody. I'm Becky Quick, along with Mike Santoli. And in just 30 minutes' time, Berkshire Hathaway Chairman and CEO, Warren Buffett, is going to be taking the stage with his Vice Chair, Charlie Munger. The legendary duo will also be joined by Berkshire's two other Vice Chairs, Greg Abel, who manages the noninsurance operations for the company; and Ajit Jain, who runs all of the insurance businesses.

And as always, it's pretty big crowd here, lots and lots of people and a few people you might notice, too. Tim Cook is here. Apple, of course, is still Berkshire's largest holding, big, big part of its portfolio. There, you see him backstage getting ready to go out and take his seat. He gets to sit down in the special seats. By the way, that's Debbie Bosanek, Warren's assistant, who's standing by, just went by beside him.

Also in the crowd, Bill Murray. He has been here for a couple of days, been hanging around, you could check out. He is taking a seat right now, too. Some other big people who are expected to be here, some well-known names, Jane Fraser, who's the Citi CEO; Ruth Porat of Alphabet. She's actually here, I did see her a little earlier. And by the way, this was a scene just a short time ago as the Berkshire shareholders, who were first in line, started streaming onto the floor.

Mike, this is like Black Friday used to be, the day after Thanksgiving, people waiting, lining up. These were the doors. Yes, it was a big rush. They opened and everybody comes running in. And it's not just because of the rain outside.

Michael Santoli

Absolutely. It's a massive arena, a convention center for people who know. And I don't know, what time did they start lining up?

Rebecca Quick

I looked at the window at 5:30, and I thought, "Huh, that's not as big of a crowd as I've seen in years past." But then I realized it's because they changed the setup for this. People used to stand about 10-deep right at the door. This year, they pushed everybody, the crowds, down the block. Because I guess, they didn't want too much of a mob scene in one place. If you watched, it went for blocks. I didn't realize it until I went to the other side of the hotel to see. It went for blocks and blocks. And I've honestly never seen a line this long around and around the convention center.

Michael Santoli

Talking about how it's buzzier and more crowded in the exhibit hall this year versus last year, which was the first after the pandemic. Of course, they broke for 2 years. So it seems like there is a little more of an interest in being here in person.

Rebecca Quick

Well, they know how to time it. There's a lot of news that's happening. Usually, you get about 40,000 people who are here. This year, they've been running ahead just in terms of the number of tickets that they gave out.

And I talked to Warren Buffett briefly last night. He said that they had 6,000 people who showed up at Will Call yesterday to try and get last-minute tickets. They ran out of tickets. They had to go print more to try and get people in the doors. And they've never seen anything like that.

And as you mentioned, the stuff is sold out. If you look at some of the places that are back here, we're going to talk about some of these companies, but he's been running the numbers and seeing what happened. I won't say too much now. But he's been tabulating all of this up to see exactly what their sales are running like here versus years past.

Michael Santoli

Yes. Obviously, this is sort of a weird microcosm of the business and the company as a whole. And it's not revenue-neutral, as he always talks about. You're paying to play here.

Rebecca Quick

You are. In fact, it is going to be a big day here. First though, we should talk about the news at hand. Berkshire is out with first quarter earnings. And that came just moments ago. Mike has been digging through all the numbers on this. And there are some stories to be told here.

Michael Santoli

There are. First of all, a big swing to the upside in the overall reported earnings number from about $5.5 billion in the first quarter last year to $35.5 billion. But almost all that swing was the mark-to-market on the investment portfolio. Operating earnings though is still a good story, up almost 13% year-over-year, up to about a little more than $8 billion.

It seems like the insurance business, specifically GEICO, swinging to a fatter underwriting profit from last year. We could talk about exactly how they got there. But it seems as if higher pricing, less advertising revenue. They went from margin as opposed to pure market share, it seems, at this point.

Also on the investment side, it seems like there was a reduction in the Chevron stake over the course of the quarter. You have to back into the numbers based on the dollar value of the stakes that they give you and the share prices at the time. But essentially, it seems like Berkshire was a seller of about 20% of that stake.

Rebecca Quick

Oh, that's a big chunk.

Michael Santoli

It's like a $6 billion or $7 billion worth. And so it's still a significant holding. I think it's also worth keeping in mind, Chevron's stock was up over 50% last year. So simply by the market appreciating, the dollar value went up a fair bit.

Rebecca Quick

Well, it's interesting though, if they were selling some of that stake while they were building the Oxy stake, the Occidental Petroleum stake, not a call necessarily on oil overall, just maybe picking...

Michael Santoli

Exactly, relative value or positioning within that. Also, Berkshire, a net seller of overall equity securities in the quarter. But the majority of that net reduction seems to be the Chevron stake. The rest of it is hard to know. Apple, pretty much unchanged. Of course, the stock is up a lot, but the position is unchanged. Bank of America also seems unchanged, too.

Rebecca Quick

Okay. Those are two positions people would have had.

Michael Santoli

So not a lot of change in terms of the key core holdings.

Rebecca Quick

For Bank of America, that's the one bank that he has kept. He's sold out of a handful of other banks, banks, some of them that he has held for a very long time. So Bank of America still seems to be his favorite. And maybe we'll hear more about that today.

Michael Santoli

You would hope. And just maybe general thoughts about his assessment of the banking system and whether it needs help, whether it looks like it's an opportunity. You have all these valuations that have been crushed.

Another thing to keep in mind for the quarter, there was $4.5 billion of shares bought back by Berkshire. So that was up from $3.2 billion in the year-ago quarter. It's not an enormous number in terms of the market value of Berkshire, which is $700 billion. It's like, what, $18 billion annual run rate of share buyback. But they did reduce the outstanding shares. The net reduction of shares, down about 1.2% year-over-year. So it's something.

Rebecca Quick

There were questions that came in. I've been looking through shareholder questions for a couple of months now that have been coming in on this. And some of the questions that came in was do you still like Berkshire Hathaway? Do you still like the stock at this price? Are you going to be as aggressive as a buyer? And I guess, this answers some of that question.

Michael Santoli

Some of it, yes. It's absolutely not super aggressive. But it's sort of soaking up some of the shares that are out there. And of course, Buffett, in his shareholder letter, was very vociferous about defending the practice of being able to buy back stock. So he does it in a disciplined way. He wants to be careful about why he's doing it and what the valuation is. But clearly, he's willing to use that to, "Oh, the cash went up to $130 billion," so up marginally, total cash holding.

Rebecca Quick

A nice pocket change. There had been a lot of questions that came in, too, about the insurance company, specifically GEICO. And you can see the GEICO right behind us.

Michael Santoli

Yes, that's right, over our shoulder.

Rebecca Quick

People just wondering what's happening. And I guess, we'll dig into that a little deeper today. You've got some numbers that you've been going though.

Michael Santoli

Be very interested to hear the color on the strategy behind it. Because there was a little bit of an issue last year, where it seemed like profitability was down. Now pricing is up across the industry. So policies are able to be written at higher prices. And so that's happening across the board. But it does seem, as I say in the commentary within the 10-Q, that they did reduce advertising expense, and there was a big swing to the upside in underwriting earnings.

Rebecca Quick

I mean, with insurance, it takes a while to raise pricing for anybody in the industry because you have to go state-by-state and get regulators' approvals before you can actually raise any of it. So there is a delay. We saw some -- a huge hit to the profitability of all the insurers as prices to replace cars, prices to fix things, construction, all of that went up. And they couldn't raise their prices as quickly.

Michael Santoli

Exactly. So it is an industry-wide phenomena. But it seems as if GEICO is trying to decide they want to skew toward more profitable customers. We'll see if that's a theme that's going to continue.

Another couple of tidbits are building products and consumers, margin squeeze that's happening across the industry. Railroad is pretty flat, BNSF, pretty flat year-over-year and a pretty big reduction in consumer-related freight earnings.

Rebecca Quick

Who needs an analyst? You've already done all the work.

Michael Santoli

Well, did the highlights. I got my little tape book marks and...

Rebecca Quick

Yes, that's good. It works. Okay, we have a lot more to get to this morning. We want to give you a quick look at today's schedule though.

Mike and I are going to be here with you until 10:15 a.m. Eastern Time. And that is when Buffett, Munger and the Vice Chairman, Greg Abel, and Ajit Jain are going to be taking the stage. You get to watch all of this, the annual meeting, you can see it exclusively here on CNBC and cnbc.com.

Buffett is going to begin the meeting with a summary of the past quarter's results. But like we said, Mike has already done that for you. So that's your bathroom break time. Then he's going to open the stage to shareholder questions. And I'll be asking some that have been e-mailed into me. Again, we've gotten lots and lots of e-mails this year, more than I've ever seen. Buffett is also going to rotate through the 11 microphone positions that are in the audience, too. So you'll see a lot of questions being asked.

Around 1:00 p.m, Buffet will break for lunch. But you could just stick around with us. Mike and I will be joined right here by Berkshire Board members, Ron Olson and Howard Buffett. We'll also be talking to tech investor, Ann Winblad, and Activision Blizzard CEO, Bobby Kotick, who has been coming to this meeting for years.

He was here last year but had to leave early because he was going to a birthday party. So he left, I think, at the lunch break. After that is when Buffett revealed to the crowd that he had taken a stake in Activision Blizzard. So Bobby found out when he was on a plane on his way back home. So he's here this year, too, and we'll find out if there's any new news on that.

Michael Santoli

At the time, of course, it was viewed as an arbitrage position because Activision agreed to be sold to Microsoft for cash.

Rebecca Quick

And Buffett said it was an arbitrage position.

Michael Santoli

Yes, exactly. The spread was very wide. It seemed just like the market was leaving money on the table. Now that it looks like perhaps regulators in the U.K. might block that deal, the question is does it remain worthwhile holding on a fundamental basis? That would be fascinating to hear the commentary on that.

And then at 2:00 p.m. Eastern, Buffett and Munger be will back onstage for another 2.5 hours of shareholder Q&A. After the afternoon session wraps, we'll be back with you to recap all of the day's action.

While the market is staging a big rally to close the week after a strong jobs report and revisions to the February and March employment numbers, Apple, a major Berkshire holding, which is unchanged in the quarter, a key driver for yesterday's rally, the stock closing higher by about 4.5% on the day after posting better-than-expected earnings, Apple now up nearly 34% so far this year.

Here to help us navigate the current market environment and look at opportunities right now is John Rogers. He's the Chairman and co-CEO of Ariel Investments and a longtime Berkshire meeting attendee. John, good to see you. Thanks for stopping by here.

John Washington Rogers
Ariel Investments, LLC

Great to be here.

Michael Santoli

What's your -- I guess, what are you looking to hear from Mr. Buffett and Munger both about -- I mean, we know that the principals are going to accentuate that they always do about how they do their business and what matters and doesn't matter in the earnings and how they approach things. But what about the moment right now, where it seems like there's big questions about financial system stability, whether there's value in bank stocks, whether the economy can handle these rate hikes?

John Washington Rogers
Ariel Investments, LLC

A couple of things that I'm going to be looking for. One, when Becky interviewed Warren when he was in Asia. And there was talk -- and Warren talked about how certain of these companies were not meeting expectations. Earnings were going to be less than expected and profits were lower than expected. And so I want to see if that trend has continued. Is he still seeing weakness in the overall economy?

And the second thing, Becky followed up the question about Paramount Global. And he was kind of a little bit soft and not as aggressively supporting his position as I had expected. So I'm curious to see what he has to say today about it, especially after the stock dislocated this week.

Michael Santoli

And you are an owner of Paramount, correct?

John Washington Rogers
Ariel Investments, LLC

We are an owner of Paramount Global. It's not been a fun week.

Rebecca Quick

Yes. How do you feel about things, I mean, Paramount slashing the dividend? I think it caught some people by surprise. But Mario Gabelli was here yesterday. And he said it didn't catch him by surprise. He wanted them to do that because he wanted them to shore up their cash position and put it back into their business at this point.

John Washington Rogers
Ariel Investments, LLC

I think it was the right decision. And I watched Mario yesterday morning, and then we did a panel. And he has been very positive about the future for Paramount Global. So we're still very, very optimistic. We think they have so many assets around the world.

They've got that great Paramount library. They've got Mission: Impossible coming out this year, all the great sports entertainment that they have and all-time favorites, like 60 Minutes. So I think there's more there than just the streaming. And I think sometimes, people are more worried than they need to be.

Rebecca Quick

Is it more there as a stand-alone business? Or do you think that this is an acquisition target? And I mean, Mario Gabelli has always been about the business of lovemaking with mergers and acquisitions.

John Washington Rogers

Ariel Investments, LLC

You're right. I think that everyone -- as we talk to experts in the industry, everyone says there's way too many streaming services. We've got to get it down to three, four at the maximum. So I think it's very possible that Paramount Global will be bought at some point.

Michael Santoli

As a value manager, do you look at the carnage in things like regional banks and anything that seems like it's connected to a commercial real estate and view that as more of a core risk to the economic outlook? Or is there actual value being surfaced in the process?

John Washington Rogers
Ariel Investments, LLC

Well, I think the stocks have gotten crushed. There's a lot of pessimism. And as Warren often says, "You want to be greedy when others are fearful." So I think if you're going to buy the banking stock, you'd buy a whole basket of them, not try to pick one but really be diversified.

We've been also adding to our favorite, Northern Trust, as our favorite bank stock. So I think we're going to be okay. There's going to be some pain and anguish here. And of course, commercial real estate is getting harmed. And it doesn't help having the banks and the problems they are. But down the road, we'll be fine.

Michael Santoli

I've been talking to folks here in the last day. And there is a little bit of suspense as to whether -- in fact, clearly, we'll get some questions on this, whether Buffett himself sees there to be any opportunities here to provide capital in areas, where it's like -- I mean, it's worth going back to how he acquired a lot of his financial positions, right?

American Express, 60 years ago, coming off a crisis that it needed capital; Bank of America, clearly; Salomon Brothers in the early '90s; Goldman Sachs, back around the crisis, too. So in other words, he's been there as a source of stable capital at times when the financial system seemed like it was in trouble. Would you want to see him make a move like that?

John Washington Rogers
Ariel Investments, LLC

That would bring a lot of confidence to the economy and to the financial system. Whenever he steps up, all of us believe in him so much. So I think it would be great if he was able to be helpful during this period and get a great return for Berkshire shareholders.

Rebecca Quick

You've got to wonder, has he been involved with conversations on these things? Are there deals that he saw and passed up on? Maybe we'll get a little color into some of that today, I'm hoping. Maybe that's why there are so many people that are here today, too.

And John, we're going to welcome our television audience in, in just a second. But we want you to stay with us. And I'm doing this because literally the TV flicked. So I'm just -- hold your thought for just a second, I want to make sure we are welcoming in our audience. In fact, you're going to hear a bell in just a second.

Yes, ding, ding, ding, there it goes. That sound that you're hearing right now, me doing ding, ding, ding, it means that it's 10 a.m. Eastern Time. And that means that it is time to welcome our television audience as well.

We are, again, at the Berkshire Hathaway Annual Meeting. And yes, okay, we want to welcome our television audience here and around the world. I'm Becky Quick. I'm here with Mike Santoli. And this is our live, all-day coverage of the 2023 Berkshire Hathaway Annual Meeting. We are just 15 minutes away from the start of the action.

Want to get back to our conversation with John Rogers. He's the Chairman, the co-CEO and the CIO of Ariel Investments. And for everybody on television, this is a conversation we've been having with our streaming audience at cnbc.com. So let's just pick it up with where we left off.

John, you were just talking about how if you saw Buffett step in and do some sort of a deal, whether it be in the banking system, whether it be something that kind of showed some confidence in the system, that would be a big deal for investors everywhere.

John Washington Rogers
Ariel Investments, LLC

I think it would be. He is so revered, as we know, around the world. And I know that the Biden administration has been talking with him. And I know other leaders are. And you can bet that he is the first call of many of the major banking giants on Wall Street to make sure they're getting his best advice and including him in these important conversations.

Michael Santoli

It's probably also worth keeping in mind that what he says about his take on whether, in fact, the banking system is sound, whether the market is overshooting in its attack on some of these regional bank valuations is worth listening to as well.

If he thinks the Fed has it right. We have this deposit backstop facility. And let's keep in mind, one of the reasons that the bank stocks are going down is consumers are in great shape. They've got a lot of cheap mortgages, unprofitable for the banks. They're looking at 5% money market yields. They can move their cash there. So it would be interesting to hear whether he thinks it's an economic risk or if it's just kind of a sector that's upside down for the moment.

John Washington Rogers
Ariel Investments, LLC

Well, as you know, he's such a long-term investor. And I think he's going to believe, as he always talks about at the Annual Meeting, about how last century, all the problems that were in front in our country, we always resolved them. Our capitalist democracy is the best system ever invented. So this crisis will pass also.

I also noticed when -- and I love watching CNBC in the morning, when you have the special boxes showing returns, like now you've been showing the regional banks, how they're doing. That's a sign that you're getting toward a period where 6 months from now, that will be a old, forgotten story. And we'll be on to something new. But I love seeing that because it gives you a sense of what's important today.

Michael Santoli

That's right.

Rebecca Quick

And John, you are a long-term investor, too. You're a value investor. You don't often get swayed by things that are happening in the immediate. But I have to think that some of the things you've seen recently have been enough to make you sit up and take notice. Is there anything you've changed in the portfolio as a result of the potential credit crunch, as the result of just watching money move quickly out of places? Does it change your mind or change your investment thesis at all for the short term?

John Washington Rogers
Ariel Investments, LLC

The only thing that sometimes happens, like right now, the housing markets have been very weak, higher interest rates have been troublesome and problematic for the housing industry. So we've been leaning in at some of the suppliers to the housing industry, some of our favorites, like Leslie's Pool, for example, and Resideo and people that are creating products for the housing industry. We think it's been overdone. And there's real bargains there.

Michael Santoli

There's been a lot of commentary and, to some degree, a bit of angst about how narrow the index performance has been, at least recently, for times this year. We talked about Apple's performance, huge sway on the index. There's a handful of stocks really carrying the S&P 500. Where does that leave you as somebody who looks for smaller and less expensive, less popular stocks at the moment?

John Washington Rogers
Ariel Investments, LLC

I've been fishing in the small- and mid-cap value world for 40 years. And I really think there's more opportunity than ever. There's these orphan stocks, neglected stocks that no one is looking at because they've been so focused on these giant -- great, giant companies that have done so well.

Michael Santoli

What about Berkshire itself in terms of how it's positioned? I mean, on the one hand, it's kind of eternal, right, the way it's structured and who it's managed by. But on the other, I mean, if you look at what's in favor right now, aside from Apple, which is 20% of the market value of Berkshire right now, its stake in it is, you have consumer staples exposure. You have real capital assets that people seem to be wanting and have pricing power. And even on the insurance side, they were able to actually make a profit. Interest rates being up, perhaps a help to them. Do you see value in the shares themselves at this level?

John Washington Rogers
Ariel Investments, LLC

We do. When Warren makes the decision to buy back stock the way he has, he's so conservative. And so for him to make that bet, it gives you a really great sense that he sees the company that's really undervalued. And we would agree, we think it's a great bargain here today.

Rebecca Quick

Have you been buying?

John Washington Rogers
Ariel Investments, LLC

I own it personally. It's too big for my small- to mid-cap value portfolios at Ariel Fund. But I haven't added to it in a while. But that's a good suggestion.

Rebecca Quick

John, thank you very much. We always enjoy seeing you here. And we really appreciate your time this morning. John Rogers from Ariel Investments.

All right. Berkshire Hathaway's $11.6 billion acquisition a year ago of the property and casualty insurer, Alleghany, brought another diverse portfolio of brands under the Berkshire umbrella, including one of the fastest-growing toymakers in the U.S., that's Jazwares. They make all those viral Squishmallows.

And here at the meeting, they're actually selling special Warren Buffett and Charlie Munger Squishmallows this weekend. They come in 8-inch size and 16-inch versions. And this is the first time they've ever made Squishmallows with a real human's face on them. We actually caught up with the company's CEO and Chief Commercial Officer, Judd and Laura Zebersky.

Judd Zebersky
Jazwares, Inc.

We acquired a company called Kelly Toys. And they were making Squishmallows. It's been around since 2017. And we were fortunate enough to build the brand once we acquired Kelly Toys.

Rebecca Quick

Because the -- I mean, people compare this to things like Beanie Babies or to the Cabbage Patch Kids, where each of these dolls has a story that comes with it. And you guys are holding the special ones you have for this meeting of Warren and Charlie, the first time you've ever put a human face on one of these.

Judd Zebersky
Jazwares, Inc.

Yes, it's the first time. But they worked out pretty good.

Rebecca Quick

Who came up with the storylines? Was that part of it, too? Or did you guys add to that?

Laura Zebersky
Jazwares, Inc.

Yes. So every Squishmallow has their own individual story. And when we acquired Kelly Toys, we saw that they had this almost diamond in the rough. They were -- people were passionate about it. It wasn't available everywhere. It wasn't available globally.

And then the bios were always part of it. And what made them really special, because kids and adults all identified with something in the bio. And so Charlie and Warren both got their own bio that represented them as people, not just businesspeople, but the really interesting individuals they are.

Rebecca Quick

One of the things that I think is so amazing, I mean, these are cool plush toys. But they're plush toys. They're squishy. They have become the most popular toy brand in 21 states. They beat out Nerf, Play-Doh. They beat out Nintendo Switch and Hot Wheels. How does that happen with a plush? And have you guys been surprised by how they've taken off?

Judd Zebersky
Jazwares, Inc.

Of course.

Laura Zebersky
Jazwares, Inc.

Yes.

Judd Zebersky
Jazwares, Inc.

Yes. It struck a nerve during COVID. It was this palliative type of feel. So people that were sitting at home, they bought more and more Squishmallows. And they fell love with the product.

Laura Zebersky
Jazwares, Inc.

We're the #1 best-selling toy in the U.S. and in many, many markets. And I think what's interesting about it is our demographic. It's not just kids. It's adults. It's grown women. We did a Squish Squad tour. And we went to major cities. And we looked at the line, and we said, "Wow, there's not that many children in the line." And that's the interesting part. People find it emotionally supportive...

Judd Zebersky
Jazwares, Inc.

And that was a big surprise to us. People in their 50s are buying more Squishmallows. Wow, that's very unusual.

Rebecca Quick

And when you found out you were being acquired by Berkshire Hathaway, your thought was?

Laura Zebersky
Jazwares, Inc.

"Wow."

Judd Zebersky
Jazwares, Inc.

"Wow."

Laura Zebersky
Jazwares, Inc.

And, "What's happening?"

Judd Zebersky
Jazwares, Inc.

Dream come true. If you would have asked us 26 years ago if this would ever, ever happen, we would say, "No way." But anything is possible.

Rebecca Quick

Well, the interesting part is Berkshire didn't keep all the companies. I think there were some they kind of got rid of. They saw you guys and they chose to keep you.

Laura Zebersky
Jazwares, Inc.

Which we were -- I remember last year, we were watching. We knew the transaction was happening. We watched the Annual Shareholders' Meeting. And we said, "Are we going to be there next year?"

Rebecca Quick

Well, in fact, I think they probably are going to be here next year. I think the question is how much of the floor space they're going to get to negotiate? Because those have been hot sellers. A lot of people...

Michael Santoli

They need more, yes.

Rebecca Quick

Yes, they do. And we weren't the only ones who caught up with them though. We were actually there a little later, when Warren Buffett and Charlie Munger came by to visit the Jazwares booth right here in the exhibition hall.

And here's a funny coincidence for you. Both of them, both Laura and Judd, were lawyers before they had this career. That's something they had in common with Charlie Munger, too. And by the way, they were sick of it, too. They wanted a job that was a little more fun. Do you know they're both reformed lawyers? They both started out as lawyers.

Charles Thomas Munger
Executive Vice Chairman

Well, I'm glad to see a reformed lawyer every time.

Laura Zebersky
Jazwares, Inc.

Yes. We are so happy to be reformed lawyers.

Judd Zebersky
Jazwares, Inc.

We're the worst lawyers.

Charles Thomas Munger
Executive Vice Chairman

Spend your days going through purchase orders is very useful work.

Warren E. Buffett
Chairman, CEO & President

Charlie and I would like to see about 90% of the lawyers being reformed.

Laura Zebersky
Jazwares, Inc.

This is a pinch-me moment for us. Because if you remember, Judd started the company by himself, no financing, no money, no backing and just did it and worked hard. And of course, we have many bumps in the road, many, many. And it makes it that much sweeter and we appreciate it. And we never forget how hard it was.

Judd Zebersky
Jazwares, Inc.

And we're much smarter today than we were yesterday because we learned a lot.

Warren E. Buffett
Chairman, CEO & President

I'm glad you were part of Allegheny.

Laura Zebersky
Jazwares, Inc.

Yes. Oh, thank you. So are we.

Rebecca Quick

You can catch more of our interview with Judd and Laura Zebersky of Jazwares and some other sounds from inside the Berkshire Hathaway Annual Meeting and a special series of CNBC's daily podcast. It's called Squawk Pod. And you can just scan the QR code on your screen to go ahead and follow Squawk Pod. You can check it out and listen any time.

Michael Santoli

All right. Well, joining us now is the CEO of Benjamin Moore, Dan Calkins. Benjamin Moore has been part of the Berkshire portfolio for more than 20 years. Dan, good to have you.

Dan Calkins
Benjamin Moore & Co.

Great to be back.

Michael Santoli

I hope you're enjoying the weekend so far. Eventful few years since you've been running the business for Berkshire at Benjamin Moore, housing boom in conjunction with the pandemic. Then a little -- a downturn in home-related investment and improvement. Where do things stand right now? We've got the inflationary pressures you've had to kind of deal with and pass through. So what's your kind of snapshot of the business right now?

Dan Calkins
Benjamin Moore & Co.

Well, we're in a great spot. We're actually celebrating our 140th anniversary this year at Benjamin Moore. So we've been through cycles like this before. Obviously, we'll be through this cycle. But it has been, what we call at Benjamin Moore, chasing the new normal. Because we had explosive growth in '20 and '21, took a little bit of a step-back in the fourth quarter last year, got off to a slow start this year.

But at the end of March, we started to see light. We're going into the paint season and people are seeing -- starting to paint again. And we're seeing that in our numbers on a regular basis. Obviously, a big driver for us is housing turnover. And with interest rates high, people not moving as much, that has an impact on our business. So as mortgage rates hopefully start to come down, we'll see more active moving. And that drives to more sales for us.

Rebecca Quick

And just fixing things up?

Dan Calkins
Benjamin Moore & Co.

Yes, fixing...

Rebecca Quick

New coat of paint, we can't -- or we can't move, so...

Dan Calkins
Benjamin Moore & Co.

Yes, exactly. Yes, and you'll have people doing some remodeling if they're not going anywhere. But the big driver is the churn. Somebody moves, they paint.

Rebecca Quick

Every room, yes..

Dan Calkins
Benjamin Moore & Co.

Every room.

Michael Santoli

And in terms of supply chain, I mean, paint coatings were particularly dramatically impacted during the pandemic with a lot of the components in short supply. Where does it sit right now? And if you retain pricing -- I was just looking in aggregate in the quarterly report that there has been some margin squeeze across the building products businesses in total, which is not just Benjamin Moore.

Dan Calkins
Benjamin Moore & Co.

Right. No, we definitely felt that. We're in a good spot now. Early last year, we had about 65 days of inventory on hand. Our historical average is about 95 days on hand. I'm happy to say, at the end of March, we're at 96 days on hand. So we're back to our historical norms from an inventory perspective. We have been able to take pricing over both '21 and '22. So while we felt some of the pressure and compression last year, that's evening out now. We're recognizing the pricing we took last year in our sales this year. So things are good.

Michael Santoli

And so that implies that you haven't seen consumers sort of trading down or anything like that when it comes to paint?

Dan Calkins
Benjamin Moore & Co.

Yes. No, we have, we have. Some -- particularly on the DIY side, we've seen some of our product mix shift from some of our more premium products to more of our mid-range products. But we have a full assortment, fuller portfolio that can meet all those price points that are out there. And so we're seeing some of that happening right now. And we hope to...

Rebecca Quick

How much margin shrinks? When somebody trades down, how much does of a margin hit is that?

Dan Calkins
Benjamin Moore & Co.

Maybe 6, 7 points on -- from a premium product to more of a commercial-type product. But we have healthy margins at Benjamin Moore. We have -- one of the things Warren likes best about Benjamin Moore is that premium position we carry.

Michael Santoli

There's a big-picture, sort of long-term, structural, bullish story about homeownership. Actually, homeownership rates, ticking higher still even through this tough period for the economy and this demographic wave that's washing over. How are you thinking about expansion plans, your ability to capture a lot of that?

Dan Calkins
Benjamin Moore & Co.

Yes. So we have been growing and expanding, not just here in North America. We've been very aggressive particularly in the U.K. and then moving into Western Europe, which is still a small part of our business. But we haven't felt the impact over there because it's new territory for us. So we have explosive growth going on over there right now, very exciting.

And then here, long term, to your point about families being formed, that's happening with this generation that's coming into the housing market. And we just think this is a blip through this period of time. And as that changes, we're prepared to service what we need to.

Rebecca Quick

Guys, if you take a look, you'll see this is live footage. Warren Buffett is making his way out to the stage right now. Charlie Munger will be joining him as well. That means they're getting about to the end of the movie.

They have a long movie, a 45-minute movie, that they showed to the shareholders. And that's what they're seeing right now. And there you see Charlie Munger as well. So they're being taken out to stage. That means things are about to kick off there. So I'm going to take my leave.

Michael Santoli

It was going to say that also means you need to be in a place to go.

Rebecca Quick

Okay. Mike, thank you. I'll see you back in just a little bit. And Dan, great to see you.

Michael Santoli

All right. We'll see you in a little bit. Dan, thanks so much.

Dan Calkins
Benjamin Moore & Co.

Thank you so much.

Michael Santoli

All right. Well, insurance, of course, one of the big storylines in Berkshire's earnings this morning. Joining me now to discuss is Evercore's David Motemaden. He has got a buy rating -- a buy ratings on the likes of Travelers, Progressive and Chubb from Evercore ISI.

And Dave, thanks for joining us this morning. We were just talking about how over the first quarter, Berkshire's insurance businesses, specifically GEICO, did make some moves on pricing, kind of fattened up the margins, reducing advertising spend. It seems like maybe an industry-wide trend. But what's been happening overall in the competitive landscape when it comes to those insurance lines?

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Yes. Thanks for having me. So you are seeing just a massive hard market in the personal auto insurance space. And GEICO has actually taken fairly aggressive action on that front. And you can see that the focus on profitability is really coming through in these results, where their policies in-force shrank 13%. And that's partly because their premium per policy, which is a good proxy for their price increases, was up 15%, which is among the highest that I've seen.

Allstate was up 16%. Progressive was up close to that level. So the entire industry is raising price. For GEICO, it looks like they've actually seen their units come down quite a bit. And that's resulted in them having better frequency dynamics, which has really helped their earnings. And another thing I've noticed is they really cut their ad spend to really focusing on what people they're underwriting to focus on profitability.

Michael Santoli

Yes. I appreciate that color, David. That's great. We're going to hear a lot more about that in the Q&A, in the Shareholder Meeting. And we're going to actually get to Becky and Warren Buffett and Charlie Munger for Q&A. We'll see you back here at 1:00 p.m. Eastern Time, when Buffett and Munger break for lunch ahead of their afternoon Q&A session and the official Shareholder Meeting. They are taking the stage right now as you can see. And we go there live.

Warren E. Buffett
Chairman, CEO & President

Good morning, and thanks for coming. Omaha loves it. I love it. Charlie loves it. We're glad to have you here. We're going to make this preliminary before the questions very short because we want to get in at least 60 questions half divided by the audience outside this arena and half from you. So I would just like to get right to the directors and the earnings that have been put up on the web page this morning. But we'll cover those very fast, then we'll get to the questions now.

When I woke up this morning, I realized that we had a competitive broadcast going out somewhere in the U.K. And they were celebrating a King Charles. And we've got our own King Charles here today. And next to him, we have Greg Abel, who's in charge of all the operations, except for insurance. And next to Greg, we have a man I ran into in 1986 and has made us look good ever since. We have the man in charge of insurance, Ajit Jain. Ajit?

And now we have our directors here in front. And if they would just stand briefly and then I'll go on to the next one. And they're all here today. First of all, doing alphabetically, there's Howard Buffett. There's Susie Buffett. There's Steve Burke, Ken Chenault, Chris Davis, Sue Decker, Charlotte Guyman, Tom Murphy, Jr., Ron Olson, Wally Weitz and Meryl Witmer. That's as good as you can get.

And there's one other person I would like to mention before we got on to the earnings that were put in the press release this morning. And that's -- well, let's see who we have here. We've got -- this is hard to believe. Can you imagine the name? Melissa Shapiro-Shapiro. She was Melissa Shapiro until she married another Shapiro. And she put this whole thing together with no help from me, no help from Charlie and a lot of help from the people in the other room. Melissa? Yes. It's very easy. If you remember her second name, you can remember her third name. So Melissa Shapiro-Shapiro.

And with that, I would like to next move on to the earnings and a couple small slides that explain what we're all about and then we're going to get to the Q&A. And the slide is up behind me. Yes, there it is.

We reported in the first quarter operating earnings a little over $8 billion. And when we talk about operating earnings, we're basically referring to the earnings of Berkshire Hathaway as generally -- well, as required under GAAP, excluding, however, capital gains both realized and unrealized. There's a few other very minor items. But basically, we expect to make capital gains over time. Why would we own the stocks otherwise? It doesn't always work out. But overall, it works out pretty well over time.

But in any day, any quarter, any year, even occasionally over a 5-year period, the stock prices move around capriciously. Now we own a lot of other businesses. We consider those stocks businesses. We own a lot of other businesses, where they get consolidated and they don't move around in value. Now if we had a little bit of Burlington stock outstanding, if we had a little bit of the energy stock trading, those stocks would move around a lot. But the businesses are what count.

So the operating earnings, as you'll see, in the first quarter came in at about $8 billion. And I would say that in the general economy, the feedback we get is that, I would say, perhaps a majority of our businesses will actually report lower earnings this year than last year. The -- in various degrees in the last 6 months or so at various times, the businesses have left the incredible period, which is about as extraordinary as I've seen a business since World War II, when the government would pour out a lot of money to people who couldn't get goods. It was more extreme in World War II. But this was extreme this time.

And it was just a question of getting goods to deliver. And people bought and they didn't wait for sales. And if you couldn't sell them one thing, they would put another thing in their backlog. It was an extraordinary period. And that period has ended. It hasn't ended with -- it isn't that employments have fallen off a cliff or anything in the least. But it is a different climate than it was 6 months ago. And a number of our managers were surprised. Some of them had too much inventory on order. And then all of a sudden, they got delivered. And people weren't in the same frame of mind as earlier.

And now we'll start having sales at places where we didn't need to have sales before. But despite the fact that this year, I think, in general, will be slower than last year. We actually are situated so that I would expect -- and believe me, when I say expect, it's nothing is sure. Nothing is sure tomorrow, nothing is sure next year. And nothing is ever sure either in markets or in business forecast or in anything else. And we don't pay much attention to markets or forecast unless the markets have an offer something interesting to do.

But nevertheless, we are positioned in two respects, as you'll see from this first report. Our investment income is going to be a lot larger this year than last year. And that's built in. I mean, we have -- as you'll see in a minute, we've had $125 billion or so in very short-term investments. And believe it or not, not that long ago, we were getting 4 basis points, which is next to nothing, on that $125 billion, which means we were getting $50 million a year.

And now the same money, the other just day or day before yesterday, we actually bought because of some funny twist in the market because of doubts about the deficit ceiling or the debt ceiling. We bought $3 billion of bills at 5.90%, that's 5.9%. It was a 5.92% bond equivalent yield. So we will have what produced us not that long ago on a 12-month basis was producing $50 million a year, producing something in the area of $5 billion a year. So we're in a position where the investment income is essentially -- well, it is certain to increase quite a bit.

And insurance underwriting is not -- it does not correlate with business activity. It depends on things like hurricanes and earthquakes and other events. So on a prospective basis, on a probability basis, we're likely to have a better year this year in insurance underwriting than we had last year. It just isn't affected by what you might call the business cycle or what applies to generally an industry, retailing, you name it.

So I would expect in one massive earthquake or one hurricane that came in at just a wrong place would -- can affect that prediction. But on a probabilistic basis, our insurance looks better this year. So if you get two of those -- two of the elements there of our main elements of earnings that look like they will swing in our direction, I would expect, but I can't promise, that our operating earnings will be greater than last year.

And if we'll move to the second slide, I give you those operating earnings figures just to give you an overview of what has happened since the pandemic started and often the year before as a base. And we retain all our earnings, as you know. So if we're retaining $30 billion to $35 billion or whatever it may be a year, you should expect more operating earnings over time. I mean, this number should be significantly higher 5 or 10 or 15 years from now because we have the advantage of retaining earnings.

And that's what got us to these figures because they were essentially nothing when we started. And they got there by retaining earnings and we'll keep retaining earnings. So it's no great triumph if these numbers move up. And what we hope is that they move up at a reasonable rate.

Historically, they moved up at an unreasonable rate sometimes. But we were working with much smaller sums then. And that can't be repeated with our present capital base. Because I note there, I believe it's on this slide, let's take a look. No, that will be -- let's see, it's on the -- well, on the next page -- let's move to the next slide.

We show that we had on March 31, now 500 -- was it $504 billion of GAAP net worth. Now what might surprise you is that there's no other company in the United States, no other company that has a number that is that large. Now that isn't because we've got the most valuable company in the United States. Other companies used our money to repurchase shares.

They could have accumulated $504 billion in GAAP. But basically, we have more under GAAP accounting now than any other company in the U.S. And of course, if you measure return on equity, that becomes a very big number to increase at a rapid rate. But we hope to do so, not a rapid rate, a decent rate.

And right below that, you see something called float. And float is money that is left in our hands, somewhat akin but very importantly different than a bank deposit. But it -- you have to pay interest to get a bank deposit. You have to pay more interest these days. And you have to run a bank and do a lot of things.

And basically, this is money that represents unpaid losses at this time. You get paid in advance in insurance. So what shows up as a net liability on our balance sheet gives us funds to exercise with an amount of discretion that no other insurance company that I know of in the world enjoys just because we have so much net worth.

And our float now comes to $165 billion. And the man sitting on the far left is responsible for moving that number up from a pittance in 1986 to this incredible figure, which in most years, practically all years, hasn't cost us anything. So it's like having a bank with no employees, no interest and no ability to withdraw the money in a hurry that we have working for us.

And it's a very valuable asset that shows up as a liability. And Ajit is responsible for building up this treasure, which has been done by outcompeting insurance companies all over the world. And now a number of our insurance companies in turn are run by talented managers who contributed one way or another, start with GEICO at the beginning of my career.

And that float, if you think about it, just think of a balance sheet, you've got liabilities here and you've got assets over here. And the liability side finances the asset side. It's very simple. And stockholders' equity finances it, long-term debt finances it and so on. But stockholders' equity is very expensive in a real sense.

Long-term debt has been cheap for a while. But it can get expensive and it can also become due eventually and it may not be available. But float is another item which shows it's all liability but hasn't cost us anything. And it can't disappear in a hurry. And it finances the asset side in the same way as stockholders' equity. And nobody else thinks of it much that way. But we've always thought of it that way and it's built up over time.

So I show at the bottom what's happened with cash and treasury bills through March 31. And I will tell you that the -- in the month of April, we probably added about $7 billion to that factor. Now part of that is because we didn't buy as much stock because that reduces cash and treasury bills. We bought about $400 million worth of stock in the month of April. That's a minus in terms of cash available.

And we, however, sold net some stock, which produced maybe $4 billion. And of course, we had operating earnings, probably $2.5 billion or something in that area. And my guess is we probably increased our cash and treasury both $6 billion and $7 billion in the month. And I just want to give you a feel for how the cash flows at Berkshire.

And then if we move to the final -- I think it's the final one, next to last one. No, I think it is the last one. Let's see, it's the fourth. Yes, this is -- we should have the one of the Class A equivalent shares outstanding. And you'll notice that every year, the number of our shares go down. So if we own more businesses and the businesses make more money, your share as shareholders, as owners of Berkshire increases every year without you laying out any money.

Now you're laying out the alternative, which you could receive in dividends. But the reason we've gotten to where we are is because we kept the money. We did pay a dividend in 1967, $0.10 a share. It was a terrible mistake. And I always tell people that I'd left for the men's room and the directors voted while I was gone.

But that isn't true. I was there, I confess. They -- but we've reinvested and has produced the $500 billion-plus of shareholders' equity and the $30 billion-plus of operating earnings. And we'll continue to follow that policy because it makes a great deal of sense.

And with that, I think we've taken care of the preliminaries. You can study the -- the 10-Q is on the web page. And if you have a week or 2 of vacation, you could spend it reading the 10-Q. But that is the essence of Berkshire.
And with that, I will start with Becky Quick. And we will alternate between Becky and the audience. And her questions have come in from all over the country. And I believe you identify the sender, and go to it, Becky.

Question and Answer

Rebecca Quick

Thanks, Warren. The first question comes in from Randy Jeffs in Irvine, California. And his question is if Silicon Valley Bank's deposit had not been fully covered, what do you think the economic consequences would have been to the nation?

Warren E. Buffett
Chairman, CEO & President

Well, I'll just simply say it would have been catastrophic. And that's why they were covered. And even though the FDIC limit is $250,000, that's the way the statute reads, but that is not the way the U.S. is going to behave any more than they're going to let the debt ceiling because the world will to go into turmoil.

And they -- well, they just -- I can't imagine anybody, the administration and the Congress and the Federal Reserve, whatever it may have been, FDIC, I can't imagine anybody saying, "I'd like to be the one going on television tomorrow and explain to the American public why we're keeping only $250,000 insured. And we're going to start to run every bank in the country and disrupt the world financial system." So I think it was inevitable. Charlie, do you have any?

Charles Thomas Munger
Executive Vice Chairman

No, I have nothing to add.

Warren E. Buffett
Chairman, CEO & President

Okay. Well, incidentally, I should mention this now. Ajit and Greg will be here in the morning session, which ends at noon. And so if you've got questions to direct to them, the time to do it is in the first half of the show. And then after lunch, it will just -- Charlie and I will be back. Okay, anyone?

Nirav Patel

Nirav Patel, Haverhill, Massachusetts. Mr. Buffett, Mr. Munger, it seems like you found the sweet spot between being too conservative and too aggressive as investors. Do you ever make bad investment decisions because of your emotions? And what do you do to try to keep that from happening?

Warren E. Buffett
Chairman, CEO & President

Well, we make bad investment decisions plenty of times. I make more than Charlie because I like to think it's because I make more decisions. But probably his batting average is worse. But I can't recall any time in the history of Berkshire that we made an emotional decision. I know the movie had Jamie Lee in there. But that was for laughs. I mean, Jamie Lee, she's good. But she's not good enough to get me or Charlie to make an emotional decision. Charlie, I'm sure you have something to add on that.

Charles Thomas Munger
Executive Vice Chairman

Well, it's a different movie than is shown on most corporate meetings.

Warren E. Buffett
Chairman, CEO & President

Yes. But have we ever made an emotional decision?

Charles Thomas Munger

Executive Vice Chairman

No.

Warren E. Buffett
Chairman, CEO & President

Yes. That's in business we're talking about. Yes. No, you don't want to be a no-emotion person in all of your life. But you definitely want to be a no-emotion person when making an investment or business decision that -- you can argue that we probably -- I would say that we've made an emotional decision perhaps. And when a manager has been with us for some period and we haven't -- we've ignored the fact that perhaps they weren't quite what they were earlier.

But our businesses are so good that they run better sometimes when -- I've talked about Wesco, for example, of the wonderful Louis Vincenti. And it ran on automatic pilot for a while. But I don't think we suffered to buy it. But you can argue that if Charlie and I haven't liked Louis as much as we did, we might have spotted it a little bit early. But I don't think it made any difference in the results. Would you agree with that, Charlie?

Charles Thomas Munger
Executive Vice Chairman

Yes, I agree totally with it. And I'm glad we behaved the way we did at Wesco. By the way, bought, I think, for a few tens of millions and it became worth $2 billion, $3 billion.

Warren E. Buffett
Chairman, CEO & President

Yes, that wasn't common in the savings and loan business as you may have noticed. They went -- they really went crazy in that industry. And we had a wonderful guy in Louis and...

Charles Thomas Munger
Executive Vice Chairman

We didn't go crazy.

Warren E. Buffett
Chairman, CEO & President

Yes, we didn't go crazy. Okay. Becky?

Rebecca Quick

This question comes from Ben Noel in Minneapolis. He says he's a Berkshire shareholder of 3 decades, and he's attended many Berkshire meetings. He's here again this year. And this is addressed to Ajit and Greg.

He says last year, I asked you about how GEICO and BNSF appeared to lose ground to their leading competitors, GEICO on telematics and BNSF on precision-scheduled railroading. Ajit, you responded by saying how you expected GEICO to make progress in a year or 2. Greg, you spoke about your pride in BNSF. But you didn't directly address the threat of precision-scheduled railroading. Will each of you please provide perspective on these competitive challenges and our company's strategies to address them?

Ajit Jain
Vice Chairman of Insurance Operations & Director

In terms of GEICO and telematics, let me make the observation that GEICO has certainly taken the bull by the horns and has made rapid strides in terms of trying to bridge the gap in terms of telematics and its competitors. They have now reached a point where on all new business, close to 90% is -- has a telematics input to the pricing decision. Unfortunately, less than half of that is being taken up by the policyholders.

The other point I want to make is even though we have made improvements in terms of bridging the gap on telematics, we still haven't started to realize the true benefit. And the real culprit of the bottleneck is technology. GEICO's technology needs a lot more work than I thought it did. It has more than 500 -- actually, more than 600 legacy systems that don't really talk to each other. And we are trying to compress them to no more than 15, 16 systems that all talk to each other. That's a monumental challenge. And because of that, even though we have made improvements in telematics, we still have a long way to go because of technology.

Because of that and because of the whole issue more broadly in terms of matching rate to risk, GEICO is still a work in progress. I don't know if any of you had a chance to look at the first quarter results. But GEICO has had a very good first quarter coming in at a combined ratio of 93% and change, which means a margin of 6% and change. Even though that's very good, it's not something we can take to the bank because there are two unusual items that contributed to it.

Firstly, we've had what is called prior year reserve releases. We've reduced reserves for the previous years and that contributed to it. And secondly, every year, the first quarter tends to be a seasonally good quarter for auto insurance writers. So if you adjust for those two factors, my guess is the end of the year, GEICO will end up with a combined ratio of just south of 100% as opposed to the target they're shooting for is 96%. I hope they reached the target of 96% by the end of next year.

But instead of getting too excited about it, I think it's important to realize that even if we reach 96%, it will come at the expense of having lost policyholders. There is a trade-off between profitability and growth. And clearly, we have -- we're going to emphasize profitability and not growth. And that will come at the expense of policyholder. So it will not be until 2 years from now that we'll be back on track fighting the battles on both the profitability and the growth front.

Warren E. Buffett
Chairman, CEO & President

Greg?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Yes. Moving to BNSF, I'll start again by expressing great pride in the BNSF team. We have an exceptional group of -- led by Katie and her managers that show up every day to do great work on the railroad. At the same time, they would be the first to acknowledge there's more to be done there. The specific reference to precision-scheduled railroading, the other large railroad, Class A railroads in the U.S. follow that and including the two in Canada. We're well aware of what they're doing and obviously pay close attention to their operating metrics.

And our team strives every day to be more efficient, obviously. I would say we balance it with the needs of our customers. If I look back to pre 2022, so we look at the 3-year period of 2019, 2020, 2021, the BNSF team made significant progress on their efficiencies and delivering overall value back to the shareholders and to their customers and, at the same time, maintaining a very safe railroad for our employees. So we're making excellent progress.

That didn't stop last year. They made great progress. Again, the reality in 2022 as we did go through a period of time where we had to, call it, reset the railroad. We came out of the pandemic. There were the supply challenges. We had certain other labor issues and other things going on at the port. And the reality is our team prioritized getting the railroad back in place for the long term, not a short-term focus on hitting certain operating metrics in 2022. We're well aware of where we were relative to those metrics.

But the real focus was to get the railroad reset in a safe manner such that we could deliver long-term value and long-term service to our customers. And that's really what we'll continue to see with that team. There'll be continual progress. There'll be years where it's not as quickly or even we go backwards. But over the long term, we'll be very -- we'll see exceptional results from that team, and couldn't be more proud that we have that asset. Thank you.

Warren E. Buffett
Chairman, CEO & President

I would just -- well, he deserves -- both of them deserve applause. I would like to add one thing. At GEICO, Todd Combs was Ajit's choice, my choice, go back to GEICO to work on the problem of matching rate to risk, which is what insurance is all about. And he arrived with exquisite timing right before the pandemic broke out and all kinds of things changed.

But Todd is doing a wonderful job at GEICO. And he works closely with Ajit. But because he still has a home in Omaha, he comes back here and we get together on the weekend sometimes, too. So that's been a remarkable accomplishment under difficult circumstances. And he's not all the way home, but he has made a very, very big change in multiple ways at GEICO.

And then one other thing I would like to mention, there have been a lot of public companies created in the last decade or thereabouts in insurance. And there's none of them that we would like to own. And they always started out in their prospectus saying, "This is a tech company, not an insurance company." Of course, they're a tech company. Everybody, whether they're an insurance or a lot of other places, are using the facility, but you still have to properly match rate to risk.

And they invariably have reported the huge losses. They've eaten up capital. But there's been one company that nobody has generally heard of. There's only been one that I know of, a company started in the last 10 years that has been an overwhelming success. And that's a company that Ajit and four people who joined with them set to develop a new business called Berkshire Hathaway Specialty. It now has -- what's the float, Ajit?

Ajit Jain
Vice Chairman of Insurance Operations & Director

Coming up to $12 billion.

Warren E. Buffett
Chairman, CEO & President

Yes. We've built more float than probably all of these companies combined. We've -- now it's cost us essentially nothing in terms of an underwriting loss. The four people have turned into, I don't know, 1,500 around the world. We took on the whole industry and we brought some unique talent in the four people that came and now have had, like I've said, 1,500-or-so worldwide. And we brought capital and we brought capabilities that really only Berkshire could supply. So it was the combination of brains and talent and energy and money.

And no one has really successfully entered this space. Plenty of people in this space who didn't like us coming. And we did it without it costing us a dime of entry. And it's been unmatched by any of the public companies that went public. And people have seen us do it, but they can't duplicate it. And that's what Ajit has created and Peter Eastwood has led this group, Berkshire Hathaway Specialty. And it's just remarkable. So anyway, with that, let's go on. Give them a hand for that. Okay, let's go to Section 2.

Unknown Attendee

I'm Karen here from St. Paul.

Warren E. Buffett
Chairman, CEO & President

I'm glad you got that in. Your priorities are right.

Unknown Attendee

Yes. I have a question on AI and robotics. Here's my question. As AI and robotics continue to advance, what do you believe will be the positive and the negative impact of this technology on both the stock market and society as a whole? And are there any specific industrials and companies that you believe will be most impacted?

Warren E. Buffett
Chairman, CEO & President

Karen, I thank you for asking Charlie that question.

Charles Thomas Munger
Executive Vice Chairman

No, no. If you went into BYD's factories in China, you would see robotics going in an unbelievable rate. So we're going to see a lot more robotics in the world. I am personally skeptical of some of the hype that's gone into artificial intelligence. I think old-fashioned intelligence works pretty well.

Warren E. Buffett
Chairman, CEO & President

There won't be anything in AI that replaces the gene. I'll state that unqualifiedly. They can do amazing things. Bill Gates brought me out the latest -- maybe not the latest version, but one he thought maybe I could handle, which -- he has to be careful with me in terms of leading me too fast. And it did these remarkable things. It didn't -- but it couldn't tell jokes. Bill told me that ahead of time and prepared me. And it just isn't there.

But things like checking all the legal opinions on -- since the beginning of time and everything and eliminating all the -- it can do all kinds of things. And when something can do all kinds of things, I get a little bit worried and -- because I know we won't be able to un-invent it. And we did invent for a very, very good reason, the atom bomb in World War II. And it was enormously important that we did so. But is it good for the next 200 years of the world that the ability to do so has been unleashed? We didn't have any choice.

But when you start something -- well, Einstein said after the atom bomb, he said, "This has changed everything in the world, except how men think." And I would say the same thing may -- not the same thing, I don't mean that. But I mean, with AI, it can change everything in the world, except how men think and behave. And that's a big step to take. It's a good question. And that's the best answer we can give. Becky?

Rebecca Quick

This question comes from Tom Seymour. He says the first sentence of a recent Financial Times article read, "Charlie Munger has warned of a brewing storm in the U.S. commercial property market with American banks full of what he said were bad loans as property prices fall." Please elaborate on what's going on in commercial real estate, how bad will the losses be and what sectors or geographies look particularly bad. I'll just add an addendum from another viewer who wrote in and wanted to know if Berkshire would be more active in commercial real estate as a result.

Charles Thomas Munger
Executive Vice Chairman

Well, Berkshire has never been very active in commercial real estate. It works better for taxable investors than it does for corporations. That's the way Berkshire is. So I don't anticipate huge effects on Berkshire. But I do think that the hollowing out of the downtowns in the United States and elsewhere in the world is going to be quite significant and quite unpleasant. I think the country will get through it all right. But as they say, it will often involve a different set of owners.

Warren E. Buffett
Chairman, CEO & President

Yes. And the buildings -- the buildings don't go away, but...

Charles Thomas Munger
Executive Vice Chairman

The owners do.

Warren E. Buffett
Chairman, CEO & President

Well -- but most people like to buy with nonrecourse in real estate. And one time I asked Charlie, there was some real estate guy we were going to. And how do they decide how much they can -- a building like this is worth? And it's -- the answer is it's whatever they can borrow without signing their name. And if you look at real estate generally, you'll understand what the phenomenon that's happening, if you remind yourself that, that's the attitude of most people that have become big in the real estate business. And it does mean that the lenders are the ones at the property. And of course, they don't want the property usually.

So then the real estate operator comes on, negotiating with them. And the banks tend to extend and pretend. And there's all kinds of activities that arrive out of commercial real estate development, which occurs on a big scale. But it all has consequences. And I think we're about -- well, we are starting to see the consequences of people who could borrow at 2.5% and find out it doesn't work at current rates. And they hand it back to somebody that gave them all the money they needed to build it. Charlie has had more experience in real -- Charlie got his start in real estate though. I mean, Charlie?

Charles Thomas Munger
Executive Vice Chairman

Yes. So it's difficult. I like what we do better.

Warren E. Buffett
Chairman, CEO & President

Well, as Charlie once said to me when I was leaving is -- a few months ago, I was visiting him. We talked for a couple of hours. And I said to Charlie as I left, there wasn't anybody else in the house except one daughter. And I said, "Charlie, I'll just keep doing what we've been doing." And Charlie said, without looking up or pausing a second, he said, "That's all you know how to do, Warren." He was right, too. Station 3, is it?

Unknown Attendee

My name is [Zala Zi]. I'm from Santa Clara, California. And my question is to Charlie and Warren. Given the rise of disruptive technologies that can improve productivity significantly and AI being one of them, how do you envision the future of value investing in this new area? And what adaptations or new principles do you think investors should adopt? And any recommendations for investors to remain successful in this rapid-changing landscape?

Charles Thomas Munger
Executive Vice Chairman

Well, I'm glad to take that one. I think value investors are going to have a harder time now that there's so many of them competing for a diminished bunch of opportunities. So my advice to value investors is to get used to making less.

Warren E. Buffett
Chairman, CEO & President

And Charlie has been telling me the same thing the whole time we've known each other. I mean, we get along wonderfully because...

Charles Thomas Munger
Executive Vice Chairman

But we are making less.

Warren E. Buffett
Chairman, CEO & President

Yes. Well, but that's because -- that's mostly, I think, because of...

Charles Thomas Munger
Executive Vice Chairman

We did better when we were younger.

Warren E. Buffett
Chairman, CEO & President

We never thought we could manage $508 billion.

Charles Thomas Munger
Executive Vice Chairman

No, never.

Warren E. Buffett
Chairman, CEO & President

But I would argue that there's going to be plenty of opportunities. And part of the reason there are going to be plenty of opportunities, the tech doesn't make any difference or any of that. I mean, if you look at how the world has changed in the years since 1942, when I started -- you can say, "Well, how does a kid that doesn't know anything about airplanes, that doesn't know anything about engines and cars and doesn't know anything about electricity and all that?"

But that clearly isn't the -- that's not the -- the world changing doesn't -- or new things coming on don't take away the opportunities. What gives you opportunities is other people doing dumb things. And it's -- and I would say that -- well, the 58 years we've been running Berkshire, I would say there's been a great increase in the number of people doing dumb things. And they do big dumb things. And the reason they do it, to some extent, is because they can get money from other people so much easier than when we started.

So you could start 10 or 15 dumb insurance companies in the last 10 years and you could become rich if you were adroit at it. Whether the business succeeds or not, the underwriters got paid and the lawyers got paid. And that creates -- if that's not on a large scale, which it couldn't be done. What, 58 years ago, you couldn't get the money to do some of the dumb things that we wanted to do, fortunately. And so I don't -- I think that investing has disappeared so much from this huge capitalistic market that anybody can play in. But the big money is in selling other people ideas.

It isn't outperforming -- in outperforming. And I think that -- I think if you don't run too much money, which we do, but if you're running small amounts of money, I think the opportunities will be greater. But then Charlie and I have always differed on this subject. He likes to tell me how gloomy the world is. And I like to tell him, "We'll find something." And so far, we've both been kind of right. Charlie, wouldn't you -- will you budge an inch on that or not?

Charles Thomas Munger
Executive Vice Chairman

There is so much money now in the hands of so many smart people all trying to outsmart one another and outpromote one another, getting more money out of other people. And it's a radically different world from the world we started in. And I suppose it will have its opportunities. But it's also going to have some unpleasant episodes.

Warren E. Buffett
Chairman, CEO & President

But they're trying to outsmart each other in arenas that you don't have to play. I mean, if you look at that government bond market, the treasury bill market, I mean, you've got this one bill that's out of line with the others, went over $3 billion the other day and -- but those are -- the world is overwhelmingly short-term-focused. And if you go to an Investor Relations call, they're all trying to figure out how to fill -- obviously to show the earnings for the year. And the management is interested in feeding them expectations that will slightly be beaten.

I mean, that is a world that's made-to-order for anybody just trying to think about what you do that should work over 5 or 10 or 20 years. And I just think that I would love to be born today and go out with not too much money and hopefully turn it into a lot of money but -- and Charlie would, too, actually. Just he would find something to do, I will just guarantee you. And it wouldn't be exactly the same as before, but he would have a big, big, big pile.

Charles Thomas Munger
Executive Vice Chairman

I would not like the thrill of losing my big pile into a small pile. I like my big pile just the way it is.

Warren E. Buffett
Chairman, CEO & President

Well, I like -- we agree on that incidentally. Okay.

Charles Thomas Munger
Executive Vice Chairman

Yes, we do. You and I are the most extreme lovers of the big pile.

Warren E. Buffett
Chairman, CEO & President

Becky?

Rebecca Quick

This question is for both Warren and Ajit. It comes from Jason Plawner in Livingston, New Jersey. He says, in 2016, you entered it into a very unique transaction with AIG, where you assumed up to $20 billion of liabilities in exchange for about $10 billion upfront. Can you please provide us with an update on this transaction in light of the increase in interest rates? And then in Tokyo, just a few weeks ago, you talked about the risks of banks with assets that were susceptible to rising interest rates. Any insight as to how Berkshire liabilities are susceptible to duration would be appreciated.

Warren E. Buffett
Chairman, CEO & President

Is that addressed to Ajit or me or what?

Rebecca Quick

Both.

Warren E. Buffett
Chairman, CEO & President

Okay, let me introduce it my one thing. And well, Ajit -- but Ajit is the key to this. He's the one that put the deal together. But we got handed $10 billion, we'll say. But we weren't restricted to playing that into bonds. So what the exact interest rate -- interest rates affect us to some degree maybe in terms of the terms of the deal we did with AIG or anybody we would do a similar deal with like that. But we don't have to put it in matching bonds or anything of the sort. It goes into a general pool of assets, which we manage and the assets -- well, the liquid assets now are $130 billion-plus. But it goes in -- so it is not set aside in some little compartment like people like to think.

Now any other insurance -- no other insurance company could do it. But they can't think that way. They aren't even used to thinking that way. But they can't think that way because they don't have our balance sheet. We account for 26% or something like that of the net worth of all property and casualty companies in the United States. So far, the payments that we have had to make have run modestly. And Ajit will correct me on this if I'm wrong because he paid a lot of attention to it. Look, the amount we have had to pay has run slightly below the amount we anticipated having to pay in terms of our share of the losses.

But it served AIG's purposes. It came to us with -- where we were in a unique position. There's nobody else that was able to write that just like when we took on Lloyd's. I mean, Lloyd's said there was no choice other than Berkshire Hathaway when they essentially resuscitated their market by laying off a lot of liabilities on Berkshire Hathaway. So we won't see those deals very often. If they're for $500 million or something like that, somebody else will go in there and offer more money. And everybody is looking for money at Wall Street. But if they start talking with the deal like the AIG deal, there isn't any other stop. Now correct me on all my numbers there, Ajit.

Ajit Jain
Vice Chairman of Insurance Operations & Director

One way to look at how the deal is performing since we did the deal is at the point in time when we did the deal, we had made certain projections of how much we will pay out each year. And what we do is monitor what the actual payments are since the inception of the deal and how does that compare with what we expect it to be at.

As Warren mentioned, these two numbers are very close to each other. More specifically, the actual payouts are 96% of what we had projected to pay out at this point in time, which is good but not great. We are still ahead of the curve. If we do end up paying out less than what we projected, not only would we have borrowed money at a very attractive rate, meaning less than 4%, significantly less than 4%, in addition to that, we would have made a fee, which in 1990 -- which in 2015 dollars would be $1 million.

So we would have borrowed money at less than 4% and we would have made $1 million fee, which is slightly more than what we were expecting to do. So net-net, we're very happy with the deal. We are happy we did it. But the game is not over. Their DOT liabilities are coming down the pike every second day. So I'm cautiously optimistic that the deal will work out better than what we expected it to work out.

Charles Thomas Munger
Executive Vice Chairman

Well, the really interesting thing is that in -- within Berkshire, the casualty insurance companies have 4x as much stockholder capital behind each dollar of premium volume, 4x normal. And of course, we see the big deals. Who would you trust if you had a big liability you want to dump on somebody?

Warren E. Buffett
Chairman, CEO & President

And we have $25 billion or more coming in from things other than insurance, uncorrelated to insurance every year with no obligations. We don't pay dividends. If we pay dividends and you cut your dividend, try going around trying to write insurance the next day. I mean, it's a business where the people are counting on you to pay. And when we take that $10 billion, we don't agree to put it in 5-year bonds and 10-year bonds. We don't even think that way.

And the people who do business with us know that they have somebody like nobody else on those -- that's going to be able to pay $10 billion, no matter what happens to the economy. So it's not only the presence of enormous strength in the insurance companies. It's the fact we've got all these earnings that essentially come in every month. And we don't have a lot of debt. I mean, we have debt at the railroad and the energy level. But in terms of the rest of the operation -- and we don't guarantee that debt. But it's [falling good]. And it's -- there just isn't another Berkshire.

And Ajit recognizes that when he's negotiating, so does the other party if the sums are big enough. There's all kinds of people that love to get $500 million or $300 million. And they can -- they may think in terms of lending it out because that's what their insurance companies can do at a somewhat higher rate. But that is not a game we play in. And we don't have an interest in playing in them. Okay, Station 4?

Marvin Blum

Hello. I'm Marvin Blum, an estate planning lawyer from Fort Worth, Texas, home to many of your companies. In fact, Warren, I met you at the memorial for our beloved Paul Andrews, who was manager of TTI. I'd like to get your thoughts on a widespread problem in the world of estate planning. And that's the failure of most parents to prepare the next generation for the inheritance coming their way.

In particular, if the estate includes a family business, most parents fail to do business succession planning to plan for who will run the business on the day when, not if, the founder is no longer there to run it. The kids aren't prepared unlike King Charles, the other King Charles, not King Charlie Munger, who has been preparing for his job as King of England now for more than 70 years.

I sometimes describe the situation like this. Picture a football game, at one end of the field is a quarterback. He has great skills. He throws a beautiful pass to the other end of the field. And at the other end of the field are the receivers. They've never been to a practice. They don't know the rules of the game. They don't know how to work together as a team. They're clueless. So the quarterback is the patriarch and the matriarch. The football is the inheritance or the family business. And the receivers are the kids. So what are the odds they're going to catch the football and go score a touchdown? Probably only around 10%.

Warren E. Buffett
Chairman, CEO & President

I got the picture on the -- yes, just give me -- I probably observed as many just because of my age and, to some extent, because of things like the giving -- I probably observed as many, particularly wealthy families, the problems. And they all get very particular to the family. And in my family, I do not sign a will until my three children have read it, understand it and made suggestions.

Now my children are in their 60s. And that would not have been a great success if I've done the same thing at their 20s. It depends on the family. It depends on how the kids feel about each other. There's all kinds of thing. It depends on the kind of business you have. So there's 1,000 variables. But I do think that it's -- if the children are growing and when the will is read to them, it's the first they've heard about what the deceased thought about things, the parents have made a terrible mistake.

And people -- well, I've run into all kinds of situations. And some people don't tell their children anything and some of them try and get them to bend to their well by using their own personal will. They make a million mistakes. And that's one you don't get to correct. And certainly, in my -- well, Charlie has had a lot of experience, too, with...

Charles Thomas Munger
Executive Vice Chairman

Well, at Berkshire, we have a simple problem of estate planning, just hold the godd*** stock.

Warren E. Buffett
Chairman, CEO & President

But that doesn't fit everybody, Charlie. I mean...

Charles Thomas Munger
Executive Vice Chairman

No, it only fits 95%.

Warren E. Buffett
Chairman, CEO & President

I don't think it necessarily -- I don't know necessarily whether if you have billions of dollars you want to leave it to your -- all of your shareholders. I mean, that's something...

Charles Thomas Munger
Executive Vice Chairman

Well, that's another question. But if you're going to place it somewhere, I just assume it has Berkshire stock.

Warren E. Buffett
Chairman, CEO & President

You're solving the investment problem for them. But you've got the personal problem of the fact that when they were 4, one of the kids pulled the other kids' cat's tail or something like that. I mean, you're dealing with human beings. And the biggest thing you want is you want your children to get along. I mean, you want that all through your life. And the estate isn't the only place where you can mess that up. But it's a place where you -- it's a very easy -- I mean, I know a number of cases where the people did not know what was in the will, where there were huge sums involved.

And within about 15 minutes, each one of them had a lawyer. They don't get along since. It's important to handle it right. And it's important if you want your kids to have a certain value -- certain values, it's important that you live those values. It's important that you talk about it to them. They're learning from you from the day they're born what you really like. And don't think that a cleverly drawn will, will substitute for your own behavior in teaching your kids the values you hope that they will have. And then your will should be in conjunction with that. It should start expressing it. And they grow older and then they learn to pass along their values in connection with the size of the estate.

If there's family farms, it's one thing. If it's a bunch of marketable securities, it's something else. But I know in one instance, by particularly a rich fellow, that once a year, he gets his kids together and have a dinner and do all kinds of things to get them to sign their income tax returns in blank because he didn't want them to know how much money they had and everything. If that isn't going to work, I mean, I don't know what necessarily will work with him. But if you want -- but Charlie and I said it, if you want to figure out how you want to live your life, you write your obituary and reverse-engineer it.

And Paul Andrews incidentally, who you mentioned, at TTI lived as great a life as anybody I've known. And he thought about these problems. And he came to me. He was 61, I think, had all the money way beyond what he needed. He didn't care about it. He'd like to give it to people. He had all kinds of good things he wanted to do. And he said, "For a year, I've been worried about my business, TTI." And he said, "I've got all the money I need. The family's got all the money that I need. But what do I do with the business? These people have helped me throughout my life."

He says, "I could sell it to a competitor. But if I sold it to a competitor, they'd fire my people and keep their people when they put it together. And if I sell it to a private equity firm or somebody, they'll be figuring their exit strategy as they sign the papers." And he said -- says, "I've been thinking about it a year." And he said, "It isn't that you're such a great guy." He says, "It's just you're the only one left." And we bought it, and we lived happily ever after. And that was a man that knew what life was about. So with that, let's go on to Becky.

Rebecca Quick

This question comes from Don Glickstein in Seattle. He says Warren has criticized Norfolk Southern's handling of its train derailment yet has been silent about BNSF's conduct. A federal judge ruled in March that BNSF intentionally and illegally violated an easement agreement on tribal land in Washington state by transporting long trains of crude oil. The same month the judge made his ruling, a BNSF train derailed on tribal land, spilling oil in an environmentally sensitive area.

What is Warren doing to ensure that BNSF and other Berkshire subsidiaries fulfill their ethical responsibilities? He says he's been a Berkshire owner for more than 2 decades. And he's concerned that Berkshire has no systems to identify and address what he calls reprehensible behavior at BNSF and other subsidiaries.

Warren E. Buffett
Chairman, CEO & President

Greg?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Sure. So the -- it is a valid issue that our team obviously has been dealing with at BNSF. We did move crude across that tribal land. We had an agreement that allowed us to move x number of units per day. And we did breach it. We went over it. There were some fundamental breakdowns there in that our team didn't understand the number of trains that they could move. We have had significant discussions with the tribe, looking to resolve the issue, recognizing we obviously benefited from moving those trains. And those type of discussions will continue.

I would say there's lessons learned there that we have to -- when we make a commitment, understand what that commitment is and live by it or don't assume we can just move our trains as we wish or the cargo as we wish. We have to respect those agreements. So there's been a moment learned there. But at the same time, we've taken it very seriously and attempted to reach a resolution there. And at some point, I hope we do come to a true resolution that's fair both to the tribe and to BNSF.

On the derailment side, we did have an issue around the track derailed. We worked very closely with the tribe to mitigate that issue instantly or at least over a very reasonable period of time. They were very responsive. Our team was very responsive. And there were really no long-term environmental impacts to that spill. And as our team has highlighted in other comments, obviously derailments do occur in the industry. We take them incredibly serious.

They're not all hazardous. But irrespective of that, we're constantly looking at how do we prevent them, how do we detect them when we potentially have one that's going to occur and what do we do with our trains. And then ultimately, it comes down to responding properly. Because they will occur. And I think we have an incredibly dedicated team that's always ready to respond to the communities they're impacting.

Warren E. Buffett
Chairman, CEO & President

There are derailments. How many a year?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Well, there's 1,000-plus in the industry.

Warren E. Buffett
Chairman, CEO & President

Yes. You start hauling, right, and we're a common carrier, and we take heavy -- very heavy freight. And we take them at 100 degrees weather and we take it at 0. And we go around curves and we have grades. And even a 1% grade, if you're going downhill with, I don't know how much weight behind you -- I mean, there are a lot of -- railroading is not an easy business. And of course, the systems were designed in the -- basically in the late 1800s -- the mid- to late 1800s. And we have 22,000, I think, it is miles of track. And that doesn't count sidings and some other things.

It is not an easy business. We'll make mistakes. Our job -- we're not making a mistake because we have a derailment. You're going to -- we will have derailments 10 and 20 years or 30 years from now. I mean, that -- but we -- and we have to carry certain products we wish we didn't have to carry. We're a common carrier. Do we like carrying chlorine and ammonia and all of that? No. But they're going to move from one place to another in this society. And we are a common carrier. And we load them if they select our railroad. But we are better than we used to be, but we've got a long way to go. I think is that fair enough statement?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Absolutely.

Warren E. Buffett
Chairman, CEO & President

Yes. Okay, Station 5.

Unknown Attendee

Mr. Warren and Mr. Munger, my name [Xu Jinghua] from China [indiscernible] company. And first of all, I'm so excited and very honored to be here today. And my question is with more and more people focusing on environmental protection and the government supporting the new energy industry as well, so what are your thoughts on the continued development of new energy? How may the new energy firm achieve better development in future?

Warren E. Buffett
Chairman, CEO & President

Yes. Well, Greg, I think has the best to answer that because he -- since we bought a company called MidAmerican but now called Berkshire Hathaway Energy. But he has been talking about it yearly, preparing reports, hoping that we can help solve a number of the problems. And we probably spent more money than any utility, I would guess, in the United States.

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Absolutely.

Warren E. Buffett
Chairman, CEO & President

And we've just scratched the surface. But it is not easy when you cross state lines. I mean, you've got different jurisdictions. And we should -- this country should be ahead of where it is in terms of transmission. And we have been the biggest factor in helping that. But why don't you tell them a little bit about it?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Sure. Thanks, Warren. So there's no question there's an energy transformation going on around the globe and, as Warren touched on, in the U.S. And in some ways, I would hope here in the U.S., it would be -- we'd at least have a clear plan across the nation as to how to approach that. But the reality is it is state-by-state with some exceptions. But -- so as a result, when you think of Berkshire Hathaway Energy, we own three U.S. utilities there. And they'll participate in multiple states. But they're developing plans state-by-state and then trying to integrate them across the various states.

The opportunities are significant because there is a transformation going on. We've outlined our goal on where we're going relative to carbon at BHE, where they'll, by 2030, reduce their carbon footprint by 50% relative to 2005. So that's the Paris Accord and the standard they want to hold the utility industry or the utility companies to. And we're well on that path. But to achieve it as a true journey. I've often talked to Warren, when we bought PacifiCorp back in the mid-2000s, we immediately recognized to build a lot of renewable energy, like we've been doing in the Midwest in Iowa. But that was basically in a single state.

Now PacifiCorp, we're in six states. We started that back in the mid-2000s. Here we are, and we laid out a great transmission plan. Here's how we're going to build it. Here's how we're going to effectuate it and all the benefits for our customers over that period of time. Here we are in 2023, and we have a little more than 1/3 of that. At the time, it was a $6 billion transmission project. Today, we have a little more than 1/3 of it built. And we've spent probably closer to $7 billion. And it's the right outcome. It's still a great outcome for our customers.

But that transmission, you absolutely -- as part of the transmission, you absolutely have to build it to move all that renewable energy. And that's sort of the complexity Warren was highlighting. It is a -- you can't just wake up one day and solve this problem. You start with transmission. And then you build the resources. But at that same company, and if we look at what we're doing across BHE Energy and that energy transformation, we have $70 billion of known projects that are really required to properly serve our customers and achieve that type of energy transformation across those utilities. And that's in the coming next -- in the coming 10 years.

So we have a team that's absolutely up to the challenge. They're delivering on their commitments. And it's a very good business opportunity for each of our companies and for our shareholders. Because as we deploy that capital, we obviously are in a return on equity of it, so -- but it will be a long journey. It will happen over an extended period of time. And the further you get out there, the more dependent upon the evolution of a variety of technologies that are progressing but not there yet. So...

Warren E. Buffett
Chairman, CEO & President

You've raised a question, I want to just take an extra minute on it because it's so important. And I don't really know whether our form of government is ideal at all in terms of solving the problem you described. We have solved it one time. In World War II, we took a -- [indiscernible]. And we found ourselves in a world war. And what we did in world war is we brought a bunch of people to Washington at $1 a year, whether it was Sidney Weinberg or Goldman Sachs, you just name them.

And we gave them enormous power to reorient the resources of the United States to face the problem that they faced, which was to create a war machine. And what they did was they found Henry Kaiser and told him to build ships. And they went to the Ford Motor Company and said, "You build tanks and some airplanes." And they reordered the industrial enterprise of the United States in a way that was unbelievable because they had the power of the federal government and they had the ingenuity of American business. And they had the facilities of American business. And it led to a very successful outcome.

But can we do that in a peacetime, where you've got 50 states and you have to get them to cooperate and you don't have anyone that -- you can issue orders, but you can't designate where the capital goes at the other end? We try and do it with tax incentives and all that sort of thing. But we haven't created the unity of purpose and the machinery that worked in World War II, where essentially everybody felt the one job was to win the war. And we figured out how to use our industrial capacity to, in fact, defeat the Axis powers. And how do you recreate that with the present democratic system? I'm not sure I know the answer. But I sure know the problem.

And I think that if you can think of -- if you've got an emergency on your hand, I mean, you really need to reengineer the energy system in the United States. I don't think you can do it without something resembling the machinery, the urgency, whatever. The capital is there. The people are there. The objective is obvious. And we just don't seem to be able to do it in a peacetime, where we're used to following a given set of procedures. And China, you've got one country and we've got 50 states. And we've got a whole different system of government that -- we should be up to the test. But so far, it hasn't worked. So thank you for the question. Becky?

Rebecca Quick

This question comes from Chris Fried in Philadelphia. He says we know that Greg Abel and Ajit Jain are the next generation of Berkshire leaders. Who are currently behind Greg and Ajit in their prospective roles -- respective?

Warren E. Buffett
Chairman, CEO & President

Well, that will be the question that they give their -- well, Greg will be -- absent some extraordinary circumstance, but he's going to succeed me. And then he will have -- be sitting in a position where he needs his equivalent or something close to his equivalent, because he's better at many things than I've been. He will need that substitute. And when the question comes where -- we know Ajit's opinion on that and -- but Greg will probably be the one that will make the final decision. I mean, it's his responsibility.

And Ajit will give him his best advice. And I think the odds are very, very high that Greg will follow it. That's all. But it's not -- those are not easy questions.

It isn't like we -- everybody talks about the executive bench and all of that sort of thing, which is lonely. I mean, you don't have that many people that can run -- the largest GAAP net worth company and all kinds of diverse businesses. But you don't need five people either. And you need a lot of good operating managers and you need somebody at the top that allocates capital and make sure that you've got the right operating manager. And we've designed something where we separate the insurance and the rest of the business. And I think it's a very good design. But they would not be smart -- we wouldn't be smart to name that decision now about the two different areas of the business because a lot can change between now and then. And the most likely change is that this job changes. Charlie?

Charles Thomas Munger
Executive Vice Chairman

I've got nothing to add. We have a lot of good people that have risen in the Berkshire subsidiaries. And there's a reason why our operations have, by and large, done better than other big conglomerate companies. And one of them is that we change managers way less frequently than other people do. And that's helped us.

Warren E. Buffett
Chairman, CEO & President

When Paul Andrews died, we know who we thought should take over there. But there wasn't any reason to announce that. I mean, Paul Andrews would -- I wish he'd lived to be 100. We had one of our managers die not long ago. And how old was he at Garan?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Yes, mid-90s, Seymour.

Warren E. Buffett
Chairman, CEO & President

Yes, Seymour Lichtenstein. And Seymour, I wrote him a letter when he was 80. And I said, "I'm glad you're 80. And I'll write you again when you're 90." And I wrote him again when he was 90. And he didn't make it to 100. But he had a terrific fellow following him. And he really managed it jointly to some extent as the years went by. But it's case-by-case. And main thing to do is have the right person running the whole place. Okay. Station 6?

Heihachiro Okamoto

My name is Hutch Okamoto. I'm from Miyazaki, Japan. Mr. Buffett, I was one of the 8,000 employees at Salomon Brothers that you saved. I was younger back then. I was working at 7 World Trade Center. I've always, always wanted to thank you in person for saving the company, its employees, including myself and my family. So thank you, Mr. Buffett.

Warren E. Buffett
Chairman, CEO & President

Thank you. And thank Deryck Maughan, who actually had been over in Japan before that and who I met for the first time the day before I put him in. And he turned out to -- it wouldn't have worked if Deryck hadn't come. So whatever you taught them in Japan, thank you.

Heihachiro Okamoto

Thank you, sir. Now my question, time to time, you have reminded us to not bet against America. What do you think are the most important things for U.S. to remain strong? And on the risk side, if the strength of the country is undermined, what could be the reasons?

Warren E. Buffett
Chairman, CEO & President

Well, we've had a lot of tests. I mean, we're such a young country. When you think about Japan and you think about the United States, it's just incredible how new we are to the block. I mean, what are we, 234 years old since we started? That's nothing. I mean, Charlie and I combined are 2/3 of -- we've lived 2/3 of the life of the country. So I mean, it really has -- I mean, we've been tested at 46 national elections, but -- and we made some bad choices. And we've had a Civil War, I mean.

So the country has had enormous advantages though in some way because we started with 0.5% of the world's population in 1790. And we now have something close to 25% of the world's GDP. And it wasn't because we had some incredible advantage in terms of the land. It was nice to have two oceans on each side back when people tried to rule the world by ruling the waves, but -- and we have good neighbors in Canada and Mexico. But it's a miracle. And you say how do we keep the good parts of this system?

Well, calling out our obvious defects, and we do it in a very herky-jerky manner. But net, the United States is a better place to live than when I was born by a huge factor. I mean, I just got a root canal a week ago. And I was just thinking, I don't know who even invented Novocaine, but I'm for him, I mean. But in a million ways, I mean, you can romanticize about the past, but forget it. It has worked. But now we do have an atom bomb and we wish nuclear power -- we wish the atom had never been split, but it has been. And you can't put it back in the bottle.

So the challenges are huge. Our government always looks -- my dad was in Congress back in the 1940s. And it looked like a mess then, although it was unified by the war to some degree. But it was still very partisan. Now the problem we have, I think, is that partisanship, it seems to me, has moved toward tribalism. And tribalism just doesn't work as well. I mean, when it gets to tribalism, you don't even hear the other side. And tribalism can lead to mobs. I mean, it flows. I mean, you've seen [indiscernible], we've seen it to a degree here. So we have to refine in a certain way our democracy as we go along. We deal with the world we live in.

But if I still have the choice of any place to be born in the world, I'd want to be born in the United States and I want to be born today. I mean, it is a better world than we've ever had. And with present-day communications, we can all see much more how terrible it is in many ways. And it's got problems. When I was born in 1930, there were 2 billion people in the world. And now there's maybe 7.7 billion and growing. And we went a millennia with really no change in population. So we -- and of course, we've introduced energy into -- and it's an incredible way into something where we now have 7.7 billion people using way more energy than they did when I was born, when there were 2 billion people.

So it's an exciting world. It's a challenging world. And I don't know the solutions on things. I do think that we do need to think about different solutions in terms of how we get important problems solved and that we don't kid ourselves that something magic will happen or that everybody will get together and we'll all just cheer and it will go away by 2050 or anything. And how well we adapt to that, we will see. I would say, so far, it doesn't look very promising. But then I'm sure that when Lincoln looked out at what was going on in the Civil War, it didn't look very promising either. So I think that the U.S. is capable of doing remarkable things. And I think it wouldn't surprise me if they do it again. Charlie may -- probably...

Charles Thomas Munger
Executive Vice Chairman

Well, I'm slightly less optimistic than Warren. I think the best road ahead to human happiness is to expect less. I think it's going to get tougher. And I think the solution of having a huge proportion of the young and brilliant people all going to wealth management is a crazy development in terms of its natural consequences for American civilization. We don't need as many wealth managers as we have.

Warren E. Buffett
Chairman, CEO & President

Charlie was born on January 1, 1924. And you'd hate to go back to that, wouldn't you, Charlie?

Charles Thomas Munger
Executive Vice Chairman

Yes, I would. And I like more wealth managers who are just merely reflecting the like. There's more wealth, but we've got -- I don't like everybody going into wealth management or MIT or something. It's -- I think the world is a little crazy now.

Warren E. Buffett
Chairman, CEO & President

Take your choice.

Okay. Becky?

Rebecca Quick

This question comes from [Dennis De Janeiro]. As Warren stated in the 2022 annual report, Berkshire will always hold a boatload of cash in U.S. treasury bills. It will also avoid behavior that could result in any uncomfortable cash needs at inconvenient times, including financial panics and unprecedented insurance losses. After Warren passes away, his A shares will be converted into B shares and distributed to various foundations. These foundations will then sell the shares to fund their causes. Warren estimates it will take 12 to 15 years for all his shares to be sold.

I worry that a corporate raider like Carl Icahn or a group will buy up enough of these shares to take control of Berkshire and completely disregard Warren's philosophy of holding a lot of cash in U.S. treasury bills, and instead be greedy, reckless and highly speculative and ruin Berkshire's position as a rock-solid financial fortress. I also worry that changes might be made in how Berkshire subsidiaries are run. Do Warren and Charlie worry that these things could happen?

Warren E. Buffett
Chairman, CEO & President

Well, I think it's fair to say we think about it plenty, but I don't worry enormously. If we -- and it is true that Greg and the Directors will have a honeymoon period for a long time because -- simply because of the bolts that will still remain. I mean, and -- but it's true that, eventually, they will get judged based on how well our operation fares versus others. Now if we don't pay any dividends in 12 or 15 years, you're talking $1.2 trillion would take to take over. And I think if we can't -- that limits the group. They like to think about how much they can borrow against it. It doesn't work.

When you -- and some of these -- there's nobody can come close to doing it themselves. And I think that the important thing is that Berkshire regarded -- will be regarded as a national asset rather than a national liability. We've got to be a plus to the country with our form of operation, and we certainly have got a record which will then be 12 or 15 years longer, done with much more capital, more companies. More things will have happened, where our hundreds of billions can work its way into the economy in terms of lots of jobs, lots of products, lots of behavior. And it can be compared with other things.

So I think we'll win on it if we deserve to win out. And I think the odds of that happening are very, very, very high. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, we -- I don't spend much time worrying about something that's going to happen 50 years ago and it -- ever and did. I think if you sort of take care of each day's responsibilities pretty well and think ahead as well as you can, then you just take the results as they fall. So I'm philosophical, but I'm not -- I'd be spreading unnecessarily.

Warren E. Buffett
Chairman, CEO & President

Okay. Neither one of us is worried, basically. But we plan. We do plan. And I've got a model in my mind of what Berkshire has been. That model has got -- has been modified plenty of times over 58 years. The one thing I know initially is -- or very importantly, was it shouldn't be a textile company. That was an important decision. And then we've just played the hand as it come along. And we made a few really good decisions, and we'll never make a decision that kills us.

The only things that are a threat to the planet, we don't have any answer for those. But we do -- we keep ourselves in better shape than anybody else, and we just aren't going to have big maturities of debt that come along. We aren't going to have insurance policies that can be cashed in en masse. And we will sit with a lot -- what looks like a huge amount of capital. Well, it is a huge amount of capital, but there's a huge amount of earning power. There's a huge amount of diversity, everything.

So our business model will be graded, and it will be graded against a lot of people that we'd like to be graded against. So I think we're handling something very secure over to the future. And I think we've got the shareholder base like nobody has. I mean, there isn't anybody in the country that I know of -- unless they've had a share -- an employee-owned company prior to going public or something of the sort. But this is the product of 58 years of regarding the shareholder as the owner of the company.

But what does that mean? That means having happy customers. It means being welcomed by your community rather than having them turn you away. It means that the government feels better with you if there's a financial crisis because you're -- you can provide something that actually the company -- the country can't, under some circumstances, and you'll be there. And at the same time, it will be good for the business.

And we will have crises of one sort or another. But if they are challenging the planet, which worries you in terms of some of the threats that we have, we're -- we'll be a plus to the United States. And if we're a plus to the United States, we'll survive.

Okay. Station 7.

Bo Clayton

Mr. Buffett and Mr. Munger, thank you for having us this weekend. My name is Bo Clayton, and I'm from Durham, North Carolina. One of the reasons that we are all here is that you're great storytellers, and we carry those stories back home with us. Can you please share a couple of stories that maybe we haven't heard before about Mr. Abel and Mr. Jain that captured their character and their caliber as leaders?

Warren E. Buffett
Chairman, CEO & President

Well, I'll start off with Ajit. He walked through the office in 1986. And I've gotten the broad idea of going into the reinsurance business, I think, it may be 1969. So I'd stumbled along for 17 years. And I had a wonderful guy that ran it, but he also liked certain brokers. I mean, he was running it the traditional way, top quality and everything else, but he fell into -- he didn't try and change the system. He tried to improve the system and -- to some degree. And we just -- we went nowhere, 17 years, wandering around with the [wolves]. And I thought I was -- I know we could have something good.

And then Ajit came in on a Saturday and -- like old [Bergen] stirred him out, I think, and Mike deserves to be enshrined in perpetuity. And I talked with him a while. I think maybe I was opening the mail on Saturday while I talked with him. And he had absolutely zero experience with insurance, but he'd actually seen a good bit of how corporate America operated because he'd been at management consulting. And after talking with him, I know I'd struck gold.

And so I hired him and gave him the backing of some money. And we had a very good period in the market almost right away for him to act. And Ajit, if I had the top pick of 10 insurance managers in the world, I could take all 10, and they wouldn't -- you can't replace Ajit. And we still enjoy talking. I don't -- we don't talk as frequently as we used to, but we used to talk about every day. But he is -- he's one of a kind.

And if you got to stick around long enough, you only need one of a kind. Paul Andrews stuck around at TTI, had all the money in the world. Every time I talk to him about getting a raise or something of the sort, he said, "We'll talk about that next year." Just -- he was not what you'd get when you get the top brass from the leading business schools.

And I will say this, I have never looked at where anybody went to school in terms of hiring. I mean somebody mailed me a resume or something, I don't care where they went to school. And it just so happens that Ajit went to some pretty good schools, but he isn't Ajit because he went to other schools. And Charlie, tell a story or 2. How did you find Louis Vincenti?

Charles Thomas Munger
Executive Vice Chairman

Well, he was there.

Warren E. Buffett
Chairman, CEO & President

But you got to recognize him.

Charles Thomas Munger
Executive Vice Chairman

I asked Louis once how he managed to play first-string football at, I think, Stanford when he only weighed 165 pounds. And he said, "Well," he said, "I was pretty quick." And he was pretty quick, but we have found a lot of people within our companies who are pretty quick. It's...

Warren E. Buffett
Chairman, CEO & President

Yes. We have 1 guy that quit at fourth grade in Ben Rosner. Am I wrong?

Charles Thomas Munger
Executive Vice Chairman

Yes, totally self-educated. Ben Rosner knew more about retailing and [illegal] neighborhoods and anybody. And he watched everything in his business like a hawk. And he was -- it was amazing. No better was an example. We never found anybody who could do what -- when Ben died, that [capability] left us.

Warren E. Buffett
Chairman, CEO & President

Yes. And your one story is kind of interesting because Ben Rosner had a partner, Leo Simon. And Leo Simon was Moe Annenberg's son-in-law. And Leo, therefore, was very, very, very wealthy, and then started with nothing, but they liked each other. And one time, well before they got involved in the business, the business we bought, but they got the idea of buying a submarine from World War I and taking it to the Century of Progress or -- which was the World's Fair, in effect, in Chicago, I think, in 1933. So they bought a submarine for probably nothing. And they figured the average guy from -- is going to his first world for -- getting into a submarine for a quarter or something, that they'd pay it.

So they hauled it from Florida, wherever they got it. They hauled it to Chicago, and they got into Chicago, and they're hauling a submarine down the streets. Chicago had -- it was creating traffic problems like nobody could imagine. So a cop came over, and he said, to Ben, "Is this where do you think you guys are going with that submarine?" Ben says -- he says, "Well" -- he says, "Well, you'll have to talk to my partner, Mr. Capone" The cop says, "You're on. Just keep going." And that was Ben Rosner.

And then Leo Simon died. And when he died in 1967 or so, Ben Rosner kept delivering half the profits to his widow, who was incredibly rich, of course, being Moe Annenberg's first-born daughter. I think Moe had 9 girls in a row before Walter came along, the 10th, I may be off by one.

But anyway, I went to this fancy apartment. And anyway, Ben kept her in for half the deal. And he had her sign the rent checks, so she would look like he was doing something in this business. And she didn't need the money, obviously, but he just felt he was obligated once his partner Leo died. And then she started criticizing him. And at that point, Ben, went to her -- his lawyer, who was her lawyer, actually, [Will Felstiner]. Whatever happened to Will? But then, he gave me a call because Ben wanted to call me because he wanted me to buy it.

And he wanted me -- if I bought it, he'd be rid of the partner's -- ex-partners's wife. And he had me and Charlie come back, and we went to Will Felstiner's office. And Ben said, "I'll work until the end of the year, and that's sold. But I'll sell you this thing for $6 million, and I have $2 million of cash and a couple of million of real estate and a couple of million of operating earnings." And this is crazy. But he felt if he was getting a lousy price, she was taking a half of the lousy price for half the money. So he looked at me at some point. Charlie, you describe the rest of it.

Charles Thomas Munger
Executive Vice Chairman

He said, "I heard you're the fastest drawer in the west." He says, "Draw."

Warren E. Buffett
Chairman, CEO & President

We're at a New York lawyer's office, and this guy is -- he's selling it. He's selling his baby. And he told us he's leaving it. I got Charlie on to size it. If this guy leaves at the end of the year and throw away every psychology book that's ever been written, I mean, it is going to be happening. And so we bought it, and we lived happily ever after with Ben.

And one time, he was taking me over to see a property we had in Brooklyn. And along the way, I said, "Ben, I promise you, I wouldn't interfere in the business when we start it." And he knew a but was coming. And he just said, "Thank you, Warren." He shut me up. He was a lot of fun. We have so many Ben Rosner stories, but now you've heard one that hasn't been published before.

Okay. Becky?

Rebecca Quick

This question comes from Chai Gohil. He writes, this is for Ajit. Reinsurance industry is going through one of the hardest pricing environments in the last 15 years. Berkshire, historically, has participated during these stressed times when economic returns are very attractive. This year, it appears Berkshire has not been interested in deploying its resources towards property cat reinsurance despite such strong returns. Can you elaborate on reasons for not participating despite these returns and your broader view on how you're planning to shape your reinsurance business post acquisition of Alleghany?

Ajit Jain
Vice Chairman of Insurance Operations & Director

Okay. In terms of Alleghany, that's an easy response. We look -- we treat operating units independent of each other. And as far as Alleghany is concerned, they have a major presence in the reinsurance business under the brand name of Transatlantic Re. That company will operate the way it's been operating in the past. There will be no change in terms of strategy or management, and they will keep doing what they're doing. They've been very successful and, hopefully, will keep being successful.

Now in terms of the property cat business that I have been active in over these last several years, you are right that the last 15 years has been a difficult time. Prices have not been attractive. And even though we have had some presence in the property cat business in the last 15 years, it really has been minimal. This December 31, which is a big renewal date for cat reinsurance, we were hoping that we would get a few days in the sun, and we'd be able to deploy our capital and be able to write some fairly attractive business.

As it happened, towards the end of December until about the third week of December, I was very optimistic that we would get a chance to put several billion dollars on the books. But in the last 10 days of December, unfortunately, a lot of capacity came out of the woodworks. Pricing that we were expecting to realize didn't really come and meet our pricing requirements, as a result of which, January 1 was a big disappointment. We did not write as much as we were hoping to write.

Now fast forward to April 1, which is another big renewal date. We had a lot of powder dry, and we were lucky that we kept the powder dry because April 1 suddenly prices zoomed up again a lot higher than what they were in January 1 and started to look attractive to us. So now we have a portfolio that is very heavily exposed to property catastrophe.

To put that in perspective, our exposure today is almost 50% more than what it was 5, 6 months ago. So we -- I think we have written as much as our capacity will allow us to write. We are very happy with what we've written. The margins have been healthy.

The only thing that I want to mention to you is that while the margins have been healthy, we have a very unbalanced portfolio. What that means is, if there's a big hurricane in Florida, we will have a very substantial loss. As opposed to that, if we have a very big loss anywhere other than Florida relative to our competition, we will have a much smaller loss.

Net-net, I'm very happy with the portfolio. It's been a lot better -- it is a lot better than what it's been in the past. I don't know how long it will last. And of course, if the hurricane happens in Florida, we could lose -- across all the units, we could lose as much as $15 billion. And if there isn't a loss, we'll make several billion dollars as profit.

Warren E. Buffett
Chairman, CEO & President

And Ajit, tell me how long -- when you called me and said you'd like to expose us to, whatever it was, a couple of billion more of exposure, how long I took to say yes?

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes. So the way we think about our exposures in the property, in the insurance operations, collectively, across the entire company, given that we have about a little less than $300 billion of that capital, we think of that as a 5% exposure that we're willing to take on.

So to complete Warren's story, a few weeks ago, we had about $13 billion of exposure all across the globe. And I called up Warren, and I said, "We up to $13 billion. It will be nice if we can go up to $15 billion. That's a good round number." And that was less than a 30-second phone call. I think Warren said yes without even listening to what the numbers were.

Warren E. Buffett
Chairman, CEO & President

I hope he calls me again.

Okay. Station 8.

Adalberto Flores Ochoa

Hello. My name is Adal Flores, and I've been a shareholder for about 16 years, and I'm coming from Guadalajara, Mexico. My question is for Warren and Charlie. Companies have the eternal dilemma between building products that can make profits and increase their company competitive position. In the best case, you can build products that have both characteristics at the same time like Google did.

But most of the time, companies need to choose between short-term profits and long-term defensibility. For example, Amazon was focused on building their famous Amazon flywheel with limited profits, initially, in order to obtain stronger network effects with the hope of getting more defensible profits in the future.

When you invest, you constantly speak about the importance of building competitive moats. What advice would you give to CEOs about how to balance this dilemma, which is essentially short-term profit versus long-term defensibility?

Warren E. Buffett
Chairman, CEO & President

Well, the answer is to control your destiny, which we've been able to do at Berkshire. So we have -- we feel no pressure from Wall Street. We don't have investor calls. We don't have to make promises. We get a chance to make our own mistakes and occasionally find something that works well.

But we've recognized that the people in this room and people like them are the ones that we're working for. And we're not working for a bunch of people that care about whether we meet the quarter estimate or anything. So we have a freedom that we get to use. And we're interested in owning a wonderful business forever. Well, there aren't very many wonderful businesses. But we do learn a lot as we go along.

We -- Charlie and I have often mentioned how we learned so much when we bought See's Candy, which we did. But we learned when we bought Ben Rosner's chain of women's dress shops spread all over the eastern part of the country. We learned when we tried getting into the department store business back in 1966. And as the ink was drying on our purchase price, we realized we'd done something dumb. But we're learning all the time how consumers behave.

I'm not going to be able to learn the technical aspects of businesses. But that'd be nice if I knew it, but it isn't essential. And we are obviously -- we've got a business at Apple, which is larger than our energy business. And we may only own 5.6% or 5.7%, but our ownership goes up every year. And I don't understand the phone at all, but I do understand consumer behavior. And I know how people think about whether to buy a second car. I know how they go out to different -- we own auto dealerships.

We're learning all the time from all of our businesses, how people react to -- versus selling them something else. And so See's was a sort of breakthrough, but it just -- we just keep learning as to more about how people behave and how a good business can turn into a bad business and how some good businesses can maintain their competitive advantage over time.

And so we don't have some formula to approach people. We just -- but we can also tell, in 10 seconds, whether it's something of interest. I mean when I get these calls and we want to send decks and all that sort of -- which is nonsense, I mean, it's a bunch of guys sitting that get paid for drawing up the projections of the future and everything like that. If they knew the future -- we don't know the future, but we do know certain kinds of businesses. And we know what the right price is, and we know what we think we can project out in terms of consumer behavior and consumer -- and threats to a business.

And that's what we've been about, and that's what we'll continue to be about. We do get -- we don't get smarter over time. We get a little wiser, though, following it over time. And you can do it while sitting in the office with the telephone, too, which we like. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, tell them the story of the Japanese investment. That should be told again. That's a nice story.

Warren E. Buffett
Chairman, CEO & President

Well, it was pretty simple. I mean, I -- back when I started, other people were going through Playboy, and I was going through Moody's, I mean, basically. There's a movie out called Turn Every Page, which I saw again for the second time a couple of days ago, Lizzie Gottlieb.

And I recommend everybody in this world watch that because I turned every page in the past. And I did it for thousands and thousands of pages at Moody's, and I did it at the Department of Public Utilities in Boston. I did it in the insurance department, and you just kept turning page as well. That goes on for a while. But now we need big ideas in order to find things.

And what was your question, Charlie?

Charles Thomas Munger
Executive Vice Chairman

Tell them about the Japanese.

Warren E. Buffett
Chairman, CEO & President

Well, the Japanese thing was simple. I mean, I like looking at companies. I mean, I like looking at figures about companies. And there were 5 very, very substantial companies, understandable companies. Most of them, maybe all of them, we've done business with in a dozen different ways. If you go a couple of miles from where this place is, our last coal generating plant was built by one of the companies.

And so here they were, they were sitting as a group where they were earning, well, say, 14% on what we were going to pay to buy them. They were paying decent dividends. They were going to repurchase shares in some cases. They owned a whole bunch of businesses that we could understand as a group, although we didn't mean we had deep understanding on any, but we've seen them operate in everything. There wasn't anything to it.

And at the same time, we could take out the currency risk by financing in the end, and that was going to cost us to 0.5%. Well, to get 14% on one side to 0.5% on the other side, and you've got money that -- forever. And they're doing intelligent things, and they're sizable, so we just started buying them. I didn't even probably tell Greg until maybe 6 months after we've gotten going. And then when we hit 5% in all of them, we announced on my birthday, at 90, that we owned over 5%.

And recently, we went over for the first time to visit with them, and we're more than pleasantly surprised, delighted, with what we find there. And now we own 7.4% of it. We won't go over 9.9% without their agreeing, and we sold another 164, whatever it is, billion of yen.

Charles Thomas Munger
Executive Vice Chairman

What it had done for us, if we only had $5 billion or something, and it made $10 billion simply in that way.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Executive Vice Chairman

We would live the heroes. Now $10 billion just sort of disappears as its an old dud in Berkshire's reports.

Warren E. Buffett
Chairman, CEO & President

But it's fun. And...

Charles Thomas Munger
Executive Vice Chairman

It is fun, and it is $10 billion.

Warren E. Buffett
Chairman, CEO & President

And Charlie says it keeps me out of bars. I talk to him about it. And I probably talked to Charlie about the year after I started. But who knows? I mean, I know he'd like it, I mean, obviously. And...

Charles Thomas Munger

Executive Vice Chairman

We try to do every dollar we would do. We can only do about $10 billion.

Warren E. Buffett
Chairman, CEO & President

Yes. We're not even that quite that much.

Charles Thomas Munger
Executive Vice Chairman

Yes.

Warren E. Buffett
Chairman, CEO & President

But we are $4 billion or $5 billion ahead plus dividends, and we got a carry that's terrific. And they welcomed us. They made sure to welcome us, but we love it the way they're operating. We're not there to tell them what to do in the least. So we did -- but we did say we never go over $9.9 billion, and we mean it. And then they know that we'll be true to our word.

And I went over there partly to introduce Greg to those people because we're going to be with them 10, 20, 30, 40 years from now. And they may occasionally find something that we can do jointly, and they look forward to doing that. We look forward to it. And in addition, we have some other operating businesses in Japan. So Greg, do you have anything?

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

The only thing I would add is that, one is, Warren, you went over there. It was to build the trust with these Japanese companies because we do hope there's long-term opportunities. But fundamentally, as you highlighted, they're an incredible -- they've been a very good investment.

I'd also highlight the 5 meetings we had were really quite remarkable. I mean these companies, the culture and the history around it and how proud they are, there's just moments of learning from them. So it was just a great experience to spend really 2 days with the 5 companies.

Warren E. Buffett
Chairman, CEO & President

And initially, that we intended to be 56 billion in the end that we were issuing and selling turned out to be 164.4 billion or something like that. Everything has worked so well. And as Charlie says, it doesn't move 500 billion of net worth that much. But this one is -- it will keep adding over the years to Berkshire's value, which is very widespread, probably 400 million, 500 million a year. And we'll just keep looking for more opportunities.

And Japan, we have -- Berkshire is the largest borrower outside of -- corporate borrower outside of Japan that exists. And we didn't set out to be that, but it's turned out that way. And we're not done, I mean, in terms of what may come along there. And we have some direct operations there, as I mentioned. And we've got some really wonderful partners working for us, and I don't have to do anything.

Okay. Becky?

Rebecca Quick

Now the next question comes from Eli [Amin Thaabet] who asks, during an episode of Investing the Templeton Way podcast, Professor Damodaran, who he respects almost as much as Warren and Charlie, mentioned that he is not comfortable with positions becoming a large part of his portfolio, for example, when they reach 25% to 35%. He mentioned that Apple is now 35% of Berkshire's portfolio and thinks that, that is near a danger zone. Wonders if Warren and Charlie can comment.

Warren E. Buffett
Chairman, CEO & President

I'd like to make one comment first, but Charlie will come up with...

Charles Thomas Munger
Executive Vice Chairman

I think he [indiscernible] one.

Warren E. Buffett
Chairman, CEO & President

Yes, I know that. But Apple is not 35% of Berkshire's portfolio. Berkshire's portfolio includes the railroad, the energy business, grantables, you name it, See's Candy. They're all businesses. And the good thing about Apple is that we can go up. They get down to -- they got about 15,700,000,000-some shares outstanding, and they get down to 15.25 billion without us doing anything. We got 6%. So we can't own more than 100% of the BNSF. We can own more than 100% of grantables or See's Candy, and it'd be nice. We'd love to own 200%, but it just isn't doable, but they're all the same. They're good businesses.

And to think that our criterion -- our criteria for Apple is different than the other businesses we own. It just happens to be a better business than any we own. And we put a fair amount of money, but we haven't got more money than we've got in the railroad. And Apple is a better business. Our railroad is a very good business. It was not remotely as good as Apple's business.

Apple has a position with consumers where they're paying -- maybe they pay $1,500, or whatever it may be, for a phone. And these same people pay $35,000 for having a second car. And if they had to give up a second car or give up their iPhone, they give up their second car. I mean, it's an extraordinary -- we probably don't have anything like that, that we own 100% of, but we're very, very, very happy to have 5.6, or whatever it may be, percent. And we're delighted every 1/10 of a percent that goes up. That's like adding $100 million to our earnings, I mean, our share of the earnings.

And they use their earnings to buy out our partners, which we're glad to see them sell out, too. The index funds have to sell. They bring the number of shares down. But we went up slightly last year. And I made a mistake a couple of years ago when I sold some shares when I had certain reasons why gains were useful, so take that year, from a tax standpoint. But having heard me say that, it was a dumb decision.

And Eli, well, you've already given your comment about it. But we do not have 35% of Berkshire's portfolio. Berkshire's portfolio is the funds we have to work with. And we want to own good businesses, and we also want to have plenty of liquidity. And beyond that, the sky is the limit or our mistakes. Who knows what the bottom is? Charlie, do you want to add anything to your earlier comment?

Charles Thomas Munger
Executive Vice Chairman

Well, I think one of the main things that's taught -- a modern university education is that a vast diversification is absolutely mandatory in investing in common stocks. That isn't a sane idea. It's not that easy to have a vast plethora of good opportunities that are easily identified. If you only got 3, I'd rather they be my best ideas instead of my worst.

And now some people can't tell their best ideas from their worst. And the act of deciding if the investment already is good, they get the thing is better than it is. I think we make fewer mistakes like that than other people. And that is a blessing to us. We're not so smart, but we kind of know where the edge of our smartness is. That is a very important part of practical Intelligence.

And a lot of people who are geniuses, and I could guess, I think they're a lot smarter than they are, and what they are is dangerous. And -- but if you know the edge of your own ability pretty well, you should ignore most of the notions of our experts about what I call the worsification of portfolio.

Warren E. Buffett

Chairman, CEO & President

Okay. Station 9.

Unknown Attendee

Charlie and Warren, thank you for this superb shareholder meeting celebration. My name is David [Cheung] from Hong Kong and a proud graduate of Chicago Booth. I'm also here with my 2 sons, Aiden and Ashton, who's currently studying at the University of Chicago as a freshman and sophomore. This is my second time attending the conference, last being 2019, 4 years ago, which I was only a guest shareholder of my friend, Andrew. So after the shareholder meeting, I have decided to buy into Berkshire Hathaway, which has given me a great return of 62% since 2019. So I want to thank you for that.

I have also taken one of your advice to give my children a share for each of their birthdays. Although they want a Berkshire Hathaway A shares, they will do just fine with B shares. My question is how do you see the current U.S.-China Internet companies' valuation and the price disparity, given there has been many uncertainties such as geopolitical tensions, significant cost optimizations with leaner U.S. tech firms, while China tech has been through all that already? Thank you.

Warren E. Buffett
Chairman, CEO & President

Charlie, do you want to...

Charles Thomas Munger
Executive Vice Chairman

Well, there's been some tension in the economic relationship of United States and China. I think that, that tension has been wrongly created on both sides. I think we're equally guilty of being stupid. If there's one thing we should do, let's get along with China, and we should have a lot of free trade with China in our mutual interest. And I just can imagine. It's just so obvious. There's so much safety and so much creativity that's possible.

Think what Apple has done by engaging in a partnership with China as a big supplier. It's been good for Apple and good for China. That's the kind of business we were doing with China and more of it. And everything that increases the tension between the 2 companies is stupid, stupid, stupid. And if we stopped at each side, and each side will respond to the other side's stupidity with reciprocal kindness, that's my view.

Warren E. Buffett
Chairman, CEO & President

And it creates one enormous problem, of course, which is that you have the 2 superpowers of the world, and they know they have to get along with each other. Either one can destroy the other, and they're going to be competitive with each other. But part of it is trying -- always, in a game like that, is trying to judge how far you can push the other guy without them reacting wrong.

And if either side is a bullion, some ways they can get away with it to an extent because the alternative is what's driving both into destruction. But if they push it too far, they increase the probability that something really does go wrong. So it's a -- it's one of those game theory dilemmas.

But you really need the leader of both countries, and you need the populist to understand at least the general situation in which these countries are going to operate over the next century, and know that some leader that promises too much can get you in a hell of a lot of trouble. And that -- like you've got one kind of a system that gets this leader one way, they got another system that gets this leader another way.

And keeping either side from trying to play the game too hard and thinking the other side will go along, just like playing chicken and driving toward a cliff. So it is -- if you got any diplomacy skills, persuasive skills or anything like that, you really want people that will convince the other country as well as his own or her own country that this is what we're engaged in, we've got to do it right. We won't give away the story, but we won't try and take the whole story either.

And we're just at the beginning of this. Unfortunately, I mean, we learn what the situation was. It used to be the Soviet. And mutually assured destruction was our policy then, and that kept a lot of things from happening, but it also came with a very, very, very close call with Cuba. And these are not -- these are different games that existed hundreds of years ago. It could -- Britain might rule or seize France or Spain, but now you're playing with a game that you can't really make a huge mistake in.

And I think that, that should be -- the better that's understood in both countries, the more the leaders feel that their citizenry does understand that, the better off we'll be. And that a lot of demography or a lot of inflammatory speaking, but a lot of authoritarian action, I mean, it all carries its dangers. And the world has stumbled through the years post-1945 with a lot of close calls in the nuclear arena.

And now we've got pandemics and we've got cyber and a whole bunch of other things. So we've got more tools of destruction than the world's ever had. And it's imperative that China and the United States both understand what the game is and understand that you can't push too hard. But we're going -- but both places are going to be competitive.

And both can prosper, that's what it really is. That's the vision that's out there that China will have a more wonderful country, United States will have a more wonderful country. And the 2 are not just combatable, they're almost imperative in terms of what's going to happen in the next 100 years or so.

And I think that the leaders of both countries got an important job and having that understood and not to do inflammatory things. And we'll see whether the luck that has taken us from 1945 to present holds out, and I think we can affect, to some extent, that luck.

And with that [short] message, we will move to Becky.

Rebecca Quick

This question comes from Rohit Belani. Berkshire bought a substantial position in Taiwan Semiconductor and, contrary to its normal holding time line, sold almost the entire position within a few short months. While you cited in a CNBC interview that geopolitical issues were the catalyst, these issues were seemingly no different when you acquired that stock. So what else, if anything, changed in those few months and prompted the firm to offload close to $5 billion worth of Taiwan Semiconductor shares?

Warren E. Buffett
Chairman, CEO & President

Taiwan Semiconductor is one of the best-managed companies and important companies in the world. And there is not -- and I think you'll be able to say the same thing 5 or 10 or 20 years from now. I don't like its location, and I've reevaluated that. I mean, I don't think it should be any place but Taiwan, although they will be obviously opening a chip capacity in this country. And actually, one of our subsidiaries that we got in Alleghany is participating in their Arizona construction activities.

But it's a question of we would rather have the same kind of company, and there -- there's nobody in the chip company -- there's no one in the chip industry that's in their league, at least in my view. And the man, was a 91-year-old or so, that connected with us that I think I played bridged with in Albuquerque. And they're marvelous people, marvelous company, but I'd rather find marvelous people -- and I want to find it in the chip industry, but marvelous people and marvelous competitive position and everything, I'd rather find it in the United States.

I feel better about the capital that we've got deployed in Japan than in Taiwan. I wish it weren't sold, but I think that's a reality. And I've reevaluated that in the light of certain things that were going on. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, my view is that Warren ought to feel comfortable if he wants to.

Warren E. Buffett
Chairman, CEO & President

Yes, yes. Put that in the minutes.

Okay. Station 10.

Unknown Attendee

First of all, thank you for making our lives better. My name is Bogumil Baranowski. I'm a founding partner of Sicart Associates New York. We manage multigenerational family fortunes, hence my question. Mr. Buffett, in 1976, in your tribute to Benjamin Graham, you wrote, "Walter Lippmann spoke of men who plant trees that other men will sit under. Ben Graham was such a man." You're both such people. Could you share with us your 100-year vision for Berkshire? It's a question to you both.

Warren E. Buffett
Chairman, CEO & President

Yes. I would like to add one thing about Ben Graham. Ben Graham did all kinds of things for me, and he never expected one thing in return. I mean, just you name it, and he did it. And there wasn't any hidden -- there's a slight hint, I should say, of anything he expected in return.

And I checked -- well, he wrote a book in 1949 that, in a sense, said to me in very persuasive terms that what I've been spending the previous 8 or 9 years working at and loving was all wrong. And that book has been -- I check it every now and then on Amazon to where it ranks. And Amazon ranks hundreds and hundreds and hundreds of thousands of books by sales. And Ben Graham's book has been up there like #300 or 350 or something like that forever. And there isn't any book like that.

I wrote Harper Collins a note the other day because they're bringing out another edition. And I asked them how many copies have been sold, and they said the records didn't go back far enough, but they had 7.3 million copies of this little book that changed my life and continues while -- so every investment book -- investment books come along, and they're number 400 or 1,000 or something for a while and then all of a sudden, they're number 25,000 or 200,000.

And this book -- in how many areas can you find any book that has had that sustained position. You can't -- you go back and look at #1 in 1950 or #2 or #3, and you look at in '51 and '52, they don't continue. I mean they just don't continue. Cookbooks, maybe 1 or 2 of them last for a while, but there is nothing. And this book lives on. And everybody keeps bringing out new books and saying a lot of other things, but they aren't saying anything that's as important as what he said in 1949 in this relatively thin, little book.

So our vision for Berkshire, it is exactly what we said today. We want it to be a company that is owned by shareholders and behaves in a way that society is happy that it exists and not unhappy. And we will have unlimited capital. We'll get lots of talent. And we've got a base that can't be beat. And there's no reason why it can't be perpetuated just, like Ben's book, and maybe be an example to other people. And if so, we'll be very happy. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Yes. One of the really interesting things about Ben Graham, he was a really gifted teacher, a very honorable profession. And that is what has lasted. However, an interesting fact that he was sheepish about t in his old age was that more than half of all the investment return that Ben Graham made in his whole life came from one stock, one growth stock, GEICO, Berkshire's subsidiary.

And he -- at the time he operated, there were a lot of sort of lousy companies that were too cheap, and you can make a little money floating from one to another, but the big money he made was one growth stock. Buying one undervalued great company is a very good thing, as Berkshire has found out again and again and again.

Warren E. Buffett

Chairman, CEO & President

And Ben wrote a postscript to the '49 edition pointing out exactly that fact and acknowledging it, but also took some good lessons from it. That's the way life is, that you prepare and you don't lose everything along the way, and then something comes along. And GEICO came along because a banker in Fort Worth that are financially [old neighbors in] and I think the banker got 3/4 of it, and I don't mean Leo or Davidson.

Leo Goodwin, who founded GEICO, then called Government Employees Insurance Company, and you can figure out the acronym. And the deal almost fell apart. The deal is, as I remember, for maybe $1.5 million or something like $1.25 million. And it almost fell apart because of a difference of $25,000 in the net worth delivered. This is a business that's worth tens of billions.

I mean -- but he pointed out the irony in that, too. I mean, he was honest about -- he was totally intellectually honest about his -- the failings, but also the strengths of his approach. And that, to some extent, Charlie and I have seen that in our lives. I mean sort of the prepared mind, the willingness to act when you need to act, then the willingness to ignore every salesman in the world and imperative to the norm. And it's 1 or 2 things that make the right decision. if you make the right decision on a spouse, I mean, you've won the game.

They -- and there's enormous important decision, and we've got all the time, I mean, in the world. We've got more time now than we used to have when I was getting to make that decision, and I don't know whether 1/3 or whatever percentage below that one. It is really interesting thing. The thing to do is just keep trying to think things through and not do too many stupid things, and sooner or later, you have a lollapalooza, as Charlie would say.

Okay. Becky?

Rebecca Quick

All right. This question comes from [indiscernible], a shareholder in Sierra Vista, Arizona, who is asking a question of Ajit, wants to know about electric vehicles getting insurance from the manufacturer instead of car insurance companies. A recent article in the Wall Street Journal shows that though EVs are a small-but-growing percentage of sales, Tesla and GM are offering their own electric vehicle insurance. What will GEICO do to combat this?

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes. So GEICO is talking to a number of original equipment manufacturers as well to try and see how best they can work with the auto manufacturer and auto insurance at the point of sale. There haven't been very many success stories as yet. So we'll wait and see. Clearly, it is a very convenient way to sell auto insurance at the point of sale. But there's a fair amount of data that needs to be collected on the driver, not just the car, and that makes it a little more complicated.

So we are talking to some auto manufacturers ourselves. We are hopeful, too, that we will strike a deal with some of them before not too long. Tesla has made -- and GM, they both have talked a lot in the press in terms of getting into the insurance business. And in fact, GM, I think, as projected, they'll write $3 billion of premium, which, it's hard to imagine where it will come from. But they're all hot to trot. I think somebody will find the secret sauce before not too long, and we ourselves are in that race.

Warren E. Buffett
Chairman, CEO & President

I would point out that General Motors had insurance for decades. And I mean, this is not a new idea. And Uber, they had a lot of insurance. Well, they laid it off with somebody, and that company got killed by it. But -- and I don't know the deal between Uber, and I forgot the name of the company that took it on, Ajit would probably know. But...

Ajit Jain

Vice Chairman of Insurance Operations & Director

James River.

Warren E. Buffett
Chairman, CEO & President

Yes, yes. And there's nothing -- it's not a new idea. It's not magic in the least. I mean it is hard to come up with something that is better at matching risk to reward -- risk -- I'm sorry, risk to price than a bunch of very smart people are doing in a progressive and a bunch of very smart people are doing it to a greater extent at GEICO. And I mean it is -- it's just -- what's fascinating to me, when Uber went into it, and they were going to get their head handed to them. But they laid off a good bit of it, a very substantial percentage. It was somebody else who got their head, for sure.

But it was a story. Wall Street loves it. We've got 80 car dealerships that do a lot of business. And we've got the people buying their car in the place. And we formed an insurance company around the dealer group, for some reason, that writes insurance. It's hard to improve on the present system.

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes.

Warren E. Buffett
Chairman, CEO & President

I have no -- it wouldn't -- I wouldn't pay a penny. I'd pay to avoid it, actually. I mean, yes -- and go ahead, Ajit.

Ajit Jain
Vice Chairman of Insurance Operations & Director

Yes. The only point I'd like to add is the margins on writing auto insurance are 4%, which is a very small number. And once there are more people that are trying to take a bite of the apple, it just becomes very, very difficult to keep all the mouths fed in a profitable manner.

Warren E. Buffett
Chairman, CEO & President

Yes, you can say the -- there was one big, new idea in insurance -- in car insurance back in 1920 or so when State Farm started. And State Farm -- and still has -- next to Berkshire, it's our -- it's the leader in having net worth. It's a mutual company. But some guy just figured that there was a cartel running car insurance, and he -- it's The Farmer from Merna is the name of the book, I think, over in Illinois. And he created a system where you really took 20 points or so out of the cost and surprise, surprise, here he is.

Nobody's owned stock in State Farm. It's an insult to the capitalism, actually. Everything in the business school says it shouldn't work because nobody owns it. Nobody is going public with it, no nothing. But it's got more net worth. It's almost probably double -- leaving Berkshire out of the picture, it's probably double the next guy. And nobody's really improved on their system that much.

So it's fascinating how people don't really look at the essence. These are cases that should carry a message. But the truth is, in Wall Street, anything that gets -- the test is whether you can sell it or not. If you can sell it, it will get sold. And a bunch of insurance companies came along and got sold. And this is -- this can be a story about the stock or that stock, and it sounded good when they talked about it at Uber for a while. It is really interesting. The investing public does not learn much.

Okay. Station 11.

Jeffrey Merriam

Hi, my name is Jeff Merriam. I'm from Edina, Minnesota. We've been coming for years. To make that professor from the earlier question really nervous, half our family's wealth is in Berkshire Hathaway.

Warren E. Buffett
Chairman, CEO & President

Well, that would make Charlie nervous.

Jeffrey Merriam

My question has to do with voting control in the future. There was a question earlier about corporate radar. I was more wondering about who is actually going to own the voting control? Is it going to be institutions, CalPERS, BlackRock? Are they eventually going to get their way with the ESG check boxes that we're going to have to check? And what should we be thinking about that?

Warren E. Buffett
Chairman, CEO & President

Well, you're thinking very well. And the interesting thing is the big aggregations look like, of course, they'd be in index funds. But what index funds want is they want a world in which society doesn't get upset with them about the fact they've got all the voting power. And I would say, in the last year or 2, it's looked like a better idea for them not quite to get as -- what was the phrase that Charlie has said...

Charles Thomas Munger
Executive Vice Chairman

They backed off a lot.

Warren E. Buffett
Chairman, CEO & President

Yes, they backed off a lot. And it's in their interest to back out -- off. And interestingly enough, and looking at money management, the game is not performance, it's assets under management. And index funds produce a tiny, tiny, tiny fee on assets under management because it was pioneered by Vanguard. And it's -- when it became successful, it was very easy to replicate, not so easy, but I mean, it was inevitable it would be copied. But it came with a management fee of 2 basis points.

So what people that have offered index funds, what they really like is you to buy their other funds or level management money in some other way so that they get a higher fee on assets under management, which, of course, is exactly why the index fund was embedded in the first place. But -- so it's gotten -- it's not a loss leader, but it is a way to pull money in. And then you'll hope that people ignore what was said by, what's the name that -- John Bogle, Jack Bogle, they ignore him. And essentially, they give up the idea that we'll offer you a fund that does this in India, and we'll offer you another fund that does that, and of course, those management fees are higher. So they're really counter-selling the idea that John Bogle came along with.

But in the process, they have achieved a lot of votes, and that was fun for a while. But the last thing in the world I want to do is that Washington or the American public decide that they're going around their way too much, so they're tending to back off now. If you figure out where their self-interest is, you can judge where their behavior is going to go.

Charlie, yes, do you want to defend them?

Charles Thomas Munger
Executive Vice Chairman

No, you can square what you just said. You're totally right on everything.

Warren E. Buffett
Chairman, CEO & President

Well, in that case, I won't ask anybody else.

Okay. Becky?

Rebecca Quick

All right. This question comes from [Elmo Grinnell], and it's about -- this is for Warren and Greg. Since 2019, Berkshire repurchased huge amounts of stock, about -- approximately reducing 10% of the share count and increasing the intrinsic value per share for the continuing shareholders. Greg is expected to be the successor of Warren as CEO. So will he be in charge of the main capital allocation decisions, including future share buybacks?

Greg has been key in the development of Berkshire Hathaway Energy, and I think a good capital allocator. Does he -- has he been involved in the share repurchases that have been executed over the past years? And do you, both Warren and Greg, work together in the estimation of Berkshire's intrinsic value and the share buyback decisions?

Warren E. Buffett
Chairman, CEO & President

Well, the answer is that Greg -- I'm going to turn it over to him, but the answer is Greg understands capital allocation as well as I do, and that's lucky for us. And he will make those decisions, I think, very much in the same framework as I would make them. And we've laid out that framework now for 30 years probably or something like that. And people make it way more complicated. I mean, particularly if you're working on a doctorate or something, it's just a great subject to have lots of footnotes and 50 pages or 100 pages.

But it's no more complicated than if you and I and Charlie had a business, and we want to sell your interest. And we could buy it for less than we thought it was worth and without misleading you in any way about what was going on, and we'd buy it. But Greg, you're on because you're going to be doing it in the future.

Gregory Edward Abel
Vice Chairman of Non Insurance Operations & Director

Right Yes. Well, I think, Warren, you said it really well. I mean the framework has been laid out. We know how you approach it and with -- and how you and Charlie have approached it and really don't see that framework changing. When the opportunity presents itself, we'll want to be an active repurchaser of Berkshire shares. We think it's a great outcome for Berkshire shareholders to own a larger piece of each of our operating businesses and our -- and the portfolio of the equity companies when the opportunity presents itself.

Warren E. Buffett
Chairman, CEO & President

It can be the dumbest thing you can do or it can be the smartest thing you can do. And to make it more complicated than that and start getting into all these -- obviously, do what the business needs to do. First, the opportunities are there. Grow your present business, buy additional business, whatever it may be, and then you make the decision on dividends. That decision becomes pretty irrevocable because you don't cut dividends and without having major effects in your shareholder base and a lot of things.

And then if you got ample capital and you don't see that you're going to use it all, and your stock is attractive and it enhances the intrinsic value for the remaining shareholders, it's a no-brainer. And if it's above the price of intrinsic value, it's a no-brainer. Because you don't even listen to anybody, no matter what investment banker comes in and tells you, "Here's how to do a repurchase program."

Okay. Station 1.

Tom Nelson

I'm Tom Nelson, a podcaster from North Oaks, Minnesota. Charlie, in 2022, you used phrases like really massively stupid, massive kind of ignorance and crazy, to describe what you said was the 30% of Americans hesitant to submit themselves to untested mRNA COVID gene therapy. Do you stand behind those quotes today?

Charles Thomas Munger
Executive Vice Chairman

Yes, sure.

Warren E. Buffett
Chairman, CEO & President

Well, we've got time for one more then before lunch.

Becky?

Rebecca Quick

Okay. I thought I was out, but let's see. How about -- let's see here.

Warren E. Buffett
Chairman, CEO & President

They'd be, "How about lunch?" pretty soon. But...

Rebecca Quick

No, no. Okay. Let's take that one for you. This one comes from Drew Estes. This is a question for Warren. In your 1969 letter to partners, you said, "In any company where the founder and chief driving force behind the enterprise is still active, it's still very difficult to evaluate second men. The only real way to see how someone is going to do when running a company is to let them run it." This wise statement now applies to Berkshire. Once the second men are running Berkshire, what would you advise owners of Berkshire to watch for? Specifically what actions, if taken, should give us concern?

Warren E. Buffett
Chairman, CEO & President

Well, I think I would have some comfort in the fact that 99% of my net worth is in the company. So I've probably got a stronger interest in it, and perhaps $100 billion or more of philanthropy will be affected by it. And -- but I would say that I don't have a second choice. I mean it is that tough to find, but I've also seen Greg in action that I feel 100% comfortable.

And like I say, I don't know. If something happened to Greg, I would tell the Directors they have a problem. And they won't -- I don't have anybody to name. And if they put somebody in -- Berkshire on automatic pilot going to work extremely well for a long time, I mean, it doesn't -- it isn't like the businesses will go away or any of the thing -- sort. And you can't.

It's hard to judge success or management in a really good business because if they don't show up at the office, they will keep working for a long time. And maybe that lack of useful input may show itself in 5 year, I mean -- and they go a long, long, long time. And how are the shareholders advised by a bunch of people that are concerned about whether you're meeting earnings projections or something, telling them whether the management is any good, it is very, very hard. It's very hard. I've been on the Board of 20 companies.

It is very, very hard. It's very hard. I've been on the board of 20 companies, it is very hard. If you ask me to rank the management of each one, it's very difficult to do because some are just better businesses and others, some would be better off not managed hardly at all. Others really need the help, but they've got a lousy business.

And Tom Murphy told me a long, long, long time ago. He said the secret of business is to buy a good business. And it's okay, didn't arrow on, too. And Greg is inheriting a good business, and I think we'll make it better. But I don't think it's easy to put any one of the next 10 nominees in and try and judge 3 years later, whether they've done a good job or not. So it's going to be -- that will be a very interesting job for the Board.

But it shouldn't listen to Wall Street on it. They've got the job. If they put somebody in, there's a surprise. We both got out in a plane, they put somebody in. They've got a real job in assessing that person. It will depend on how good he or she is as a talker. It will depend on them courting Wall Street to be supportive of them, all kinds of things.

And we've got some very good people on the Board, but they would be challenged in that position as would I where I've been in that position in other companies, where a very great leader has left and on the way back from the funeral. Nobody knows what to do exactly.

So with that cherry message, we will go to lunch, and we will come back. We'll see at 1:00. Thank you. And we're still going to try to get 60 questions in. We've done 25 so far, yes, 25. So keep the questions short, and I'll try and give the answer short. Thanks.

Michael Santoli

Welcome back to our live coverage of the 2023 Berkshire Hathaway Annual Meeting. I'm Mike Santoli. The morning Q&A session has just ended. Becky will rejoin me in a minute, but let's recap some of the big news, Warren Buffett, Charlie Munger and Berkshire Vice Chairs, Greg Abel and Ajit Jain, just made in the Q&A session.

As Warren mentioned, they got through 25 questions. A lot of them pretty wide ranging at the top. Buffett did say that the way things are tracking right now, most of Berkshire's operating businesses look like they'll be down in earnings for 2023. So the broader economic slowdown is reaching them, broad exposure to railroads and building products as well as energy and a lot of consumer areas. So that's probably not a surprise, but it is a contrast to the rise in operating earnings they had in the first quarter.

Now on Apple, in response to a shareholder question that Apple was becoming a very large percentage of the investment portfolio, some 35% according to the question. Actually, it's approaching half of the equity securities in the portfolio. And Warren Buffett said, that's something we need to think about it.

They think about their entire business as being the portfolio. So Apple is not a particularly large shale, if you consider the companies, the businesses that they own outright. And therefore, he also said Apple is a much better business than any one of their operating businesses. They wish probably they could own all of it.

But right for now, they own almost 6%. Apple keeps buying back a ton of stock, which raises Berkshire's proportion of the whole company, which they're pretty happy with at the moment. Buffett also said in response to a question about how he quickly sold out of Taiwan Semiconductor after having built a stake not long before. Buffett said, he feels just his capital is safer in Japan than in Taiwan. They are little concerned, obviously, about geopolitical tensions in Japan -- in Taiwan, excuse me, really does like the investments in the Japanese trading houses financed with very inexpensive borrowings in yen.

So that was essentially some of the headlines out there. A lot of skeptical comments about AI in response to some questions just to. We're going to get to a lot of those details. Meanwhile, cnbc.com's banking reporter, Hugh Son at CNBC headquarters right now.

And Hugh, Warren and Charlie didn't spend a whole lot of time this morning talking about the banks. So despite all the recent regional banking turmoil, I didn't really get many pointed questions on it, but didn't get one. I wonder what you make of that?

Hugh Son

Yes. So the one question they did get was the very first of the day, which was what would have happened to the U.S. if SVBs uninsured depositors were allowed to go under. And Warren is very clear on that. He said that he would have led to a disaster that essentially, it would have led to a run in every bank in the country, the following morning. So essentially, an important thing to do. I think for my money, it is more interesting about what he hasn't said than what he has, which is, we're at a moment in this country where the business model of regional banking is under attack, and we're wondering whether or not the market is essentially pushing otherwise healthy banks to the brink.

And so the question of the hour for me and hopefully gets us in the second half of the afternoon in the Q&A is, whether or not that there's a point -- a price in which he's willing to deploy capital. And clearly, for those of who don't know, the backdrop is that Warren Buffett has been time and time again, one of the most important backstops of the U.S. banking industry in this country that he has provided capital.

He has provided confidence to U.S. banking to the U.S. banking industry time and time again. And so we're all dying really just to figure out what he's going to say. And if he doesn't say anything about this, I would point to the idea that perhaps, it is a bit early to get involved in banks.

I mean he's given pretty negative comments to our Becky Quick, only last month about his prospects for banking. And that's certainly one of the things I want to hear.

Michael Santoli

Yes, for sure. And I guess you might also be able to argue that the particular banks that are most under pressure right now are relatively small. They're literally regional. They are restricted to the small parts of the country.

They're not necessarily big long-term franchises that would meet the other investment criteria perhaps that he might look for. But it is interesting that he did not really change his holdings in this latest quarter in Bank of America, in Citigroup presumably.

So that would suggest that there's not a general concern about the overall system, but maybe also, at least as far as we know, did not find fresh reason to extend capital to some of the struggling banks.

Hugh Son

Yes. I mean he spent the last 3 years cutting his stacks in banks. At one point in 2019, 2018, he loaded up on JPMorgan, Goldman Sachs, and added a significant stake in Wells Fargo. Wells Fargo historically had been one of their biggest holdings, and he paired back after their fake account scandal.

So -- and more recently, he's pared back in PNC and used Bancorp. So certainly, I think the general sort of idea is that he's loathe the own banks heading into a potential economic downturn. And certainly, that's still the case where we are to this day, Mike.

Michael Santoli

For sure. A related area. Of course, this morning, one of the shareholders asked about problems in commercial real estate. Now Charlie Munger has been outspoken about the banks being full of what he said were bad loans. While he said this morning, this would not be a Berkshire problem. He is concerned about the situation. Let's know what he said.

Charles Thomas Munger
Executive Vice Chairman

I do think that the hollowing out of the downtown in the United States and elsewhere in the world is going to be quite significant and quite unpleasant. In the country will get through it all right. But as they say, hopefully it will often involve a different set of owners.

Michael Santoli

That is one of the sort of feared aftereffects or exacerbating factors with the regional banking crisis, of course, is their own exposure to commercial real estate.

Hugh Son

Yes, 100%. I mean that would certainly feed into this thesis that maybe now is not the time to come into the banks, even considering how [indiscernible] those stocks have been and since the SVB collapsed back in March.

Clearly, the concern right now is that these banks are holding tons of loans, either to office builders, commercial real estate loans, that type of thing, which are set for some pain in the coming months. And that has yet to actually play out. It's certainly something that we're all keeping our eyes on.

Michael Santoli

Sure. Also, seem some skepticism about the asset class of commercial real estate. In general, Warren saying that people just essentially pay for a building whatever they can borrow. So there's not a lot of price discipline there perhaps or valuation focus. Hugh, thanks. Becky is now back with us.

And Becky, we hit on a couple of the points.

Rebecca Quick

What did I miss?

Michael Santoli

Well, I mentioned what he had to say about Apple. Essentially, he's not worried about it getting to be too big a position because he views it holistically within the entirety of Berkshire, not just the equity portfolio.

Rebecca Quick

You and I have talked about it. I can't remember if we were on camera when we were discussing or so not, but just talking about what a big position it is. If you don't think about it from his perspective, I haven't. Just in terms of, okay, you're not talking about a stock portfolio, you are talking about an overall portfolio of the company, and the mouth that goes into it.

What kind of stunned me is the idea that he said, Apple is a better business than any of the businesses that we own in whole.

Michael Santoli

Exactly. Without that, we did mention that's a big headline. And he said, look, we have great businesses. We have a great railroad and all the rest of it. But I think just that's what the numbers would tell you. And just in terms of the profitability, the sustainability of profit margins, the loyalty of the customers. So it was interesting. He also -- he's got a lot of things working in his favor, which is, as he said, Apple continues to buy back. shares and everybody else, but him, and raising his ownership stake in the business.

Rebecca Quick

It occurred me at the time. Maybe we'll get a chance to ask them at some point. But if that's the case, why don't you just put more money in Apple? You've got $130 billion almost sitting around in cash.

Michael Santoli

Sure.

Rebecca Quick

Obviously, he always wants to have a lot of cash. He's talked about $50 billion or more in the past that we'll have on hand. But that still leaves you a lot of wiggle room, and that makes you think that he must be keeping some of that other dry powder to be opportunistic, sales that come along.

Michael Santoli

It feels like there's a general pull where that -- in dollar terms, that position keeps getting big as Apple does well, again, buyback stock from everybody else. I will say, it's a much more expensive stock now than it was when he bought it 8 years ago, 7 years ago.

Rebecca Quick

And maybe that's the explanation.

Michael Santoli

And back then, he felt like it was undervalued because people didn't recognize in his view that it was kind of a indispensable consumer product in the minds of their customers, whereas now it's kind of valued the way those other consumer staple businesses are.

Rebecca Quick

All right. Let's listen know what Warren actually had to say. We've got those comments about Apple.

Warren E. Buffett
Chairman, CEO & President

Apple, has a position with consumers where they're paying maybe they pay $1,500 or whatever. May be for a phone, and these same people pay $35,000 for having a second car. And if they had to give up a second car or give up their iPhone, they give up their second car. I mean it's an extraordinary. Probably, we don't have anything like that, that we own 100% of. But we're very, very, very happy to have 5.6% or whatever it may be percent. And we're delighted every 10% that goes up.

That's like adding $100 million to our earnings. I mean our share of the earnings. And they use their lines to buy out our partners which we're glad to see them sell out, too.

Rebecca Quick

Right now, we want to bring in renowned corporate lawyer and Berkshire Director, Ron Olson. Ron is also one of the top shareholders of Berkshire's shares as well. We keep an eye on a lot of these things.

Ron, thank you for joining us this morning. All right. We just want to talk to you about what you heard in the first part of this meeting because I think they were pretty reflective, pretty focused on a lot of the succession issues. And what's going to happen? What's taking place with both Greg Abel and Ajit Jain, being in the positions they're in, maybe stepping up and doing a lot more of the day-to-day work and activities over the last few years?

As a Board member, the Board has been kind of understanding of what's been driving those things. What do you all talk about in the Board meeting? What do you think of what you've heard today?

Ronald L. Olson
Director

Well, you're right, Becky. There's a lot of focus on succession, but what I took away from the meeting, part of which was not available to the general public was what was going on in the movie that preceded it. There was a focus on succession for over the last 3 decades year after year.

And look, what we have on this stage, what I heard coming from what a combined 101 years from Warren and Charlie was an amazing reflection of their energy and their wisdom.

Rebecca Quick

101 years of business at Berkshire, right?

Ronald L. Olson
Director

Yes. And to me, they've got a long runway ahead. And we are so fortunate to have Greg Abel designated as Warren's successor, and the Board feels enormous confidence. And I can detail a little of that, if you want, but that's -- we've had a lot of contact with Greg.

Personally, I've known him since we bought MidAmerican, quite a number of years ago. Tiny little company. Had an asset over in the Philippines that generated some energy from geothermal, a couple of other little things. And look what that company is today. Greg has built that.

Not Warren, not Charlie, Greg has built that. A good bit of it was by acquisition. And people worry about Greg's ability to make acquisitions. I don't. The Board does it. He's a numbers guy, just like Warren's a numbers guy. I'm not. They are.

And he has the fundamentals, high integrity, high intelligence. Recently, this last year, I got more than what I've had before about Greg by having him as a client. I work very closely with them on one matter. This is a person who leaves nothing for doubt. He plans. He's skillful. He has a political skill that I would say exceeds Warren and Charlie. So we're very excited.

Michael Santoli

Warren also said that he is a great capital allocator, which is pretty much a high praise, as you said. He's done plenty of M&A. So if you're worried about that part of the business. But it's interesting because there's always this line that has to be walked, which is, look, this company is going to be great as structured, almost no matter who's running it.

And on top of it, we have great people who are going to be running it. Because Warren just said before the break there, Berkshire on autopilot would work extremely well for some period of time.

Ronald L. Olson
Director

I think, Charlie, you said it slightly differently. He said, it's -- we've given this a lack of attention, and I suggest that, that's what the rest of you should do after we leave. We've got phenomenal managers. And so there's a high level of confidence in the future, and I don't -- if people didn't take that away from this morning, Becky, I'll be surprised.

Michael Santoli

Well, it's also -- I was going to just mention, too, that a couple of questions about once the shares are -- they've been donated, once they convert to Class B shares. The voting control slowly over time, eventually will make its way out into the public and it's seeming concern about what that would mean in terms of activists or somebody altering the strategy or makeup of the company.

And I mean, Warren seem to say, "Nobody could afford to really muscle this company around at this point, especially in 10 or 15 years."

Ronald L. Olson
Director

Well, I happen to agree. I've done a fair amount of work for companies who have been subjected to what we call activist investors through the years, including some of the names mentioned today. I don't see that being a serious threat in any way, shape or form. It is a huge company.

As Warren pointed out, largest net worth in the S&P 500. So -- and I think another point to be made in that respect is, it's not just Warren and Charlie's holdings of the stock, we've got shareholders who are devoted to this stock. And so long as we behave, they will trust their savings with us.

Rebecca Quick

That's what I wanted to ask you about, Ron. Just the number of items on the ballot this time around on the proxy for ESG, for other things they want to push the company to do, push the Board to do, changes, whether that be looking at climate change, whether that be saying, I'm not going to ever have any one at the company have a political perspective that's made public.

I mean those are things that Warren and Charlie both have been pretty disdainful of. The idea that anybody else gets to force all the rest of the shareholders and the rest of the company what to do. And that's fine because Warren and Charlie are in a position to be able to say those things.

I think the key is probably the shareholder base. Are you convinced that the shareholder base will remain the same? And second of all, will they vote -- will they actually go out and vote? Because retail investors in general, don't vote on these things, they just let it ride, which is why you can have somebody get a small portion of the vote and have their way with this.

Ronald L. Olson
Director

Well, increasing percentage of ownership by some of the large index funds and so on. Yes. That's a different kind of investment. But I don't see that overtaking individual shareholders that have been our base for years. Their confidence, I think, will remain as long as we have the kind of leadership we've had.

And Greg is not going to change that. These managers are not going to disappear. If we make other acquisitions, I've got confidence we will. And I've got confidence that they will be made soundly with leadership that Warren has said for years, the kind of leadership that love their money or love their business more than they love their money. And they'll be devoted to what is in the best interest of these individual shareholders.

So you take these four initiatives. Climate change is a big issue. No question about it. And by the way, I thought Warren's comment today about -- one more thing we, as a country, should be thinking about is how we're going to mobilize the dedication to climate change as we did mobilize the country in defending World War II or pursuing World War II.

And there's a lot that can be done. But I don't think very many companies have done more than Berkshire. And I don't think the people that are pushing these initiatives really understand what the money is we are devoting to, for instance, transmission building, which is essential to get renewable energy where it needs to be, what Greg has done out in Iowa, building capacity for nearly 100% of the rate payers. It's great.

Rebecca Quick

Ron, one last question before you go. Is there something you're hoping to hear more about in the second round of Q&A?

Ronald L. Olson
Director

I'm sorry. Say that again.

Rebecca Quick

Is there something you're hoping to hear in the second round of Q&A.?

Ronald L. Olson
Director

You mean this afternoon?

Rebecca Quick

Yes.

Ronald L. Olson
Director

I don't have any great -- I don't think there's a need for me filling in the blanks for what they're going to say. But there is a seriousness of purpose about this meeting that simply is not reflected in any other meeting -- annual meeting I go to, and I go to a number.

And that comes about, I think, because of the mutual respect between the audience, that is the shareholders and the management. And I want to see that continue, and I'm sure it will this afternoon.

Rebecca Quick

Ron Olson, who is a Berkshire Board member, I want to thank you so much for your time today, Ron.

Ronald L. Olson
Director

I'm delighted to be here.

Rebecca Quick

It's great to see you.

Ronald L. Olson
Director

Thank you.

Rebecca Quick

Thank you.

Michael Santoli

Thanks, Ron. It is AI, of course, is all the rage right now, with recent earnings calls flooded with references. One of the shareholders wanted to get Warren and Charlie's thoughts. Not surprisingly, Charlie Munger did not hold back.

Charles Thomas Munger
Executive Vice Chairman

I am personally skeptical of some of the hype that's gone into artificial intelligence. I think old fashioned intelligence works pretty well.

Warren E. Buffett
Chairman, CEO & President

It can do all kinds of things. And when something can do all kinds of things, I get a little bit worried. And because I know we won't be able to un-invent it. And we did invent for very, very good reason, the atom bomb in World War II, and it was enormously important that we did so.

But is it good for the next 200 years of the world that the ability to do so has been long unleashed? We didn't have any choice. But when you start something -- well, Einstein said after the atom bomb, he said, "This has changed everything in the world, except how men think."

And I would say the same thing may -- not the same thing. I don't mean that, but I mean with AI, it can change everything in the world, except how men think and behave.

Michael Santoli

Joining us now is noted Tech Investor, Ann Winblad. She's Co-Founder and Managing Partner of Hummer Winblad Venture Partners. And Ann, it's great to see you. Thanks so much for stopping by here.

Ann Winblad

Thanks for having me.

Michael Santoli

So there was a fair bit, I guess, you would say, of skepticism about AI's ability to completely upend all these industries and maybe act as a threat to a lot of the businesses that Berkshire owns, but also some suspicion about as Warren said you cannot un-invent it.

And there are some unintended consequences. As a tech investor looking for disruptive ideas, how are you framing this opportunity?

Ann Winblad

Well, we're bringing this opportunity as significant. The challenge for many companies, we heard in the description of GEICO today, where when asked about telematics, which is basically analytics to step before generative AI as we're discussing today.

And even there, Ajit mentioned that they had to still finish their digital transformation process with their core computing architecture before they get to core analytics, let alone get to generative AI. So we'll see this though very, very fast in the tech industry itself, but it will take a little bit more time to reach core industries that we're talking about today.

Rebecca Quick

And one of the things that really struck me, and you've come to this meeting every year, so you hear these things. Warren kind of laid out the case when we asked about companies that are offering insurance, whether that be Tesla or some of the other auto companies also offering insurance, you pointed out that there have been probably 10 insurance companies that have launched and call themselves technology companies.

We're a technology company. We're a technology company. We're a technology company. Most of them have failed because they stick in actual underwriting. They're no good at taking risk and figuring out how to price it, which is what insurance is. He said, everybody is a technology company. You look at any of these companies, they all use technology. As an tech investor, how do you figure out who's a tech company? And who is just a company that uses technology, how do you differentiate it?

Ann Winblad

Well, we focus on enterprise infrastructure. So when we look at the big pieces starting to move around, like adding new infrastructure like generative AI, it means that you've got to change the mechanisms that connect all the wheels.

In generative AI, one of the big issues is going to be how you get all this data to keep feeding the machine and making it more intelligent. That's with APIs. And we built a company called MuleSoft, that's part of CRM now that deals with APIs about 10 years ago.

Now they were not a CRM company, they were an API company. So we're under the hood. And under the hood is what they call deep tech, which everybody says they're investing in these days. So we try to look at the engineering of this, versus the verticalization because we can't be experts in these industries. And this is where technology investors do go astray.

We know technology. We don't know insurance. We don't know retail. We don't know education, unless you're a specialty investor there.

Rebecca Quick

Okay. But let me ask you one more question on that point. Apple, everybody thinks is a technology company. Warren Buffett started investing because he said it's not. It's a consumer products company. Is Apple a tech company? And do you think it still has advantages of a tech company? Is that why you would buy the stock?

Ann Winblad

Apple is a consumer company. It is. In the U.S., it has -- for a while, it was a luxury brand. Now it's a global brand. It is an enormously successful brand company, but it has to make technology work to do that.

And it also sells us that technology in a consumer appliance that it's done for 16 years. It's amazing that the iPhone is 16 years old. So I think if you walk around and ask people to describe the technology they're walking around with, they can't describe the components of the iPhone, but they can describe their experience with that piece of technology, and that makes it a consumer company.

Michael Santoli

You mentioned this is all going very fast. You mentioned generative AI a couple of times. Is it a qualitatively different thing? Or is it just what we've generally become accustomed to, which is waves of innovation, wash through, software gets better, get smarter. Big data was a buzz phrase a couple of years ago. How different is what we used to talk about as big data from AI?

Ann Winblad

All right. It does come in waves. There are failure waves of comforts. And we've been working on AI way for a long, long time. as long as I've been in technology, which has been over 4 decades. But what we now have is hyperscale computing. We have companies that are now part of this like NVIDIA, which really provides that infrastructure that we can do this.

So we're really moving to hyperscale computing, which allows us to process this data really fast if you've used ChatGPT. One of the magical things about it is there's no latency. It's just instant. We're going to couple this in the next wave called quantum computing, which, of course, the big tech companies are working at. But realistically, it's allowing us to harness data in a very, very different way and also use what we call machine learning in a much more deeper way.

So when we combine all these hyperscale computing with massive amounts of data, with the improvement in artificial intelligence itself, it is a significant wave. All those other pieces came along as little waves, but this is a big one. Quantum will be big once it finally happens as well, which is the next phase of hyperscale computing.

Michael Santoli

Ann, great to catch up with you. Thanks so much.

Ann Winblad

Thank you.

Michael Santoli

Enjoy the rest of the meeting.

Rebecca Quick

Okay. A number of companies that are here in the showroom are marking sales milestones this weekend because there's a lot of people here, if you haven't noticed it already, One of those companies is See's Candy. It saw a record first hour of sales when it opened for business yesterday at noon. And that's pretty amazing.

Because if you look at the sales that they're doing through here, we got the chance to catch up with the CEO, Pat Egan, in the See's booth here. That is a front and center location, and it is worth it.

Pat Egan

We are so proud of this place. We actually have more square footage, and we -- there's a little bit jealousy going on here because we have so much square footage, but it's because we got to sell this.

Rebecca Quick

I'm going to say, look at some of the crowds over here. This is why you have all the square footage.

Pat Egan

Last year was fast and hot. You are going to ask me questions about this. We have started even faster.

Rebecca Quick

Okay. So last year, Mr. Buffett made a big deal about it. In the annual letter this year, he said that you guys sold 11 tons of candy. Just on the 2 days of the shareholder meeting last year, $400,000. Does that rack-up to about?

Pat Egan

Yes. In a little bit, yes.

Rebecca Quick

How long does it take your average store to get $400,000 in sales?

Pat Egan

That would be a good several months.

Rebecca Quick

Okay. so you did that in 2 days?

Pat Egan

So 12 hours. Several months.

Rebecca Quick

Okay. So that's a good return.

Pat Egan

Yes.

Rebecca Quick

1972 is when this purchase was made. Warren Buffett has talked about how $25 million they bought the company for. He was haggling. Didn't want to pay $30 million.

Pat Egan

He got a great deal.

Rebecca Quick

He says he's got more than $2 billion in pretax income that's come from your company in the days in.

Pat Egan

We're adding to that. Yes.

Rebecca Quick

So what have you done for him lately?

Pat Egan

Well, so year-over-year, we feel really fortunate getting through 2020, which was not our best year ever. 2021, our centennial year. We turned 100. Our best year ever by a mile. And then we built on that last year. This year, we've started it even better.

Obviously, our costs, like everybody else, are going up. You asked me last year about our commodity process. I give you a different answer than I would give you this year, but we're definitely making our contribution.

Rebecca Quick

So what is happening with commodity prices this year?

Pat Egan

They've gone up significantly. So -- and they're actually -- they're just finally starting to level off, but over the last 9 months or so. Actually when you asked me that question last year, it was -- we had actually bought so much on the forward market that we felt really good.

Cost of butter, as an example, is up over 100% for us. Cost of sugar up over 100% for us. So it's definitely taking a little bit of a bite, but we have enough volume and we have enough history that we have been able to manage through that very well.

Rebecca Quick

What about other inflationary pressures? You get hit with higher wages, higher energy costs.

Pat Egan

All of the above. Our customers and our employees are living life just like everybody else and running into the same challenges. And so we definitely want to make sure we're taking care of our employees.

So our benefits and everything else that goes with that have definitely gone up as well, but we've been able to manage through it pretty well.

Rebecca Quick

Sales in 2020 were down because stores were closed. People can go into them. What happens...

Pat Egan

First quarter was great, but we -- yes, we closed very early on because we made the decision that we don't know what we're dealing with. If you go back to March 16, 2020, if you don't know what you're dealing with moment in time, both for our customers and our employees, we chose to close our retail operations.

We reopened after about 1.5 months. We reopened a phone service and buy online, pick up in store, and then all of our shops were reopened by the fall.

Rebecca Quick

Yes. And you actually had some really strong -- people were willing to spend on things. If they were buying it online or doing other things going along those lines, they were paying premium for things. Is that still the case with consumers? And you see any weakness?

Pat Egan

No. I think we still maintain really high level. So our package count, for example, in e-commerce has gone up about double in the last couple of years, and it's maintained. We haven't actually -- we hit a peak, and then we've maintained. We haven't dropped off.

Rebecca Quick

Is that at the expense of sales in stores or that's gone up to?

Pat Egan

Both are growing. E-commerce has been growing faster, but our shop sales have also been good.

Rebecca Quick

Bobby Kotick is here as well. He's the CEO of Activision Blizzard, and he's a long-time visitor to Omaha for the Berkshire meeting. He's been coming lots and lots and lots of years. When's the first time you were here, Bobby?

Bobby Kotick

Early 1990s.

Rebecca Quick

And why did you come in the beginning?

Bobby Kotick

Well, I was very fortunate. I have the chance to meet Warren in the 1980s because my college roommate their families sold [indiscernible] to Berkshire. And I knew the guy has been another chance to meet him. And it's one of the great privileges of my life is that relationship that I have with Charlie and with Warren.

Rebecca Quick

And last year, you were here at the annual meeting. And you had to leave a little early, I think there was a birthday party you were getting back for, is this what happened?

Bobby Kotick

I left around this time. And then our friend, Patty phoned me and said, "Are you still here?"

And I said, "No, I'm on my way to the airport." And she said, "Oh, Warren just announced he owns, I think, 9% of your company, which was a big surprise to me." And -- but one of the great votes of confidence that you could ever get.

Rebecca Quick

Yes. How would you feel about that after knowing him for so long?

Bobby Kotick

Like I said, I don't think there's anything -- when I think about my business career, that announcement was one of the pinnacles of my business experience to know that Warren and Charlie had so much faith and confidence in the company.

Rebecca Quick

Yes. One of the things we said at the time was partially it was because he was doing a little bit of arbitrage. There was a deal from Microsoft. The stock was trading under the deal price, and we set up, he was just looking at it and like that.

They did announce in the last quarterly results that they had sold some of the stock. I don't know if you've had any conversations with them, what you think about it? Or what else is going on out there?

Bobby Kotick

I've never had one conversation with him about it. I just -- I'm grateful if they own 10 shares or they own 9% I'm grateful.

Rebecca Quick

It's a lot more than 10 shares that they own. I think with their last -- it was 6.7% stake that they own with the company. So that's a big stake.

Bobby Kotick

They're probably the largest...

Rebecca Quick

I think they're maybe their biggest shareholders. Yes, I think they probably are, too.

We talked with you a week ago after the U.K. regulator basically said, they didn't agree with the deal with Microsoft. Do you have any updates? I know that you and Microsoft are both appealing this. You guys are going to fight this out. Any update on what you can tell us on that front?

Bobby Kotick

Well, we've had a chance to read what the CMA had to say. And there are a number of different bases for appeal. There's a technical basis that is irrationality. And this one is in the clearly irrational. But we'll appeal, and I think it's very nonsensical decision and we'll see what happens.

Rebecca Quick

The appeal process is kind of convoluted. It's not like other places, and that's why there's been so much riding on this because in this case, the CMA is who you appeal to, to basically say, "Hey, this is the illogical. This irrational? Can you give me another decision? Is that how it works? Or is there a different way to go through it?

Bobby Kotick

I don't know all the technicalities, but there are process issues. There are procedural issues. There's the purely irrational. But I think then, yes, it would go back to the CMA. And then presumably, they would probably accept the remedies that it seemed like they had already accepted.

Michael Santoli

In a situation like this, you obviously have to run the business as it is right now, as you still hope to anticipate that you'll be part of a bigger company. How do you sort of walk that line to a degree?

I mean what are the prospects of the business right now as an independent company? Are they different from if you're inside of Microsoft?

Bobby Kotick

Well, we had in the first quarter record performance. All of our franchises are doing incredibly well. The business is moving along at a really fabulous pace. Our people are really excited. They're really motivated. They see all the prospects and opportunities.

And I think it's one of the nice things about this transaction. We're hopeful that we can complete it. But if it doesn't get completed, by the end of the year, we'll be sitting on probably something like $17 billion or $18 billion of cash.

Rebecca Quick

Including the $3 billion breakup fee?

Bobby Kotick

Including the break fee, if that were to happen. And I think we're in the enviable position of thinking about being here and what we have.

So like Call of Duty is Coca-Cola and Candy Crush is American Express. And we were talking with what GEICO is and I think it's probably the closest to Warcraft. But -- so all you need are three things like that, that have the ability to generate higher returns on invested capital over long periods of time.

Rebecca Quick

Is it safe to say you are thinking about what you would do on either pathway at this point, making sure that you've got a plan no matter what happens?

Bobby Kotick

Well, remember, we've been owned before. So we had a controlled shareholder, and we're operating the business today fully independently, making all the thoughtful decisions. The only thing that we can't really do would be to allocate the -- we're sitting on roughly $13 billion of cash today. So that's the only thing that we really can't do. But other than that running the business the way we ordinarily would.

Michael Santoli

You're saying you can't find new strategic uses for that cash while the deal is pending?

Bobby Kotick

We can't, but we're also earning 5% on our cash balances. So we didn't get the 5.9. I wish we had gotten to that, but it was a moment in time.

Michael Santoli

[indiscernible]

Bobby Kotick

So we're still in the 5, which is just think -- 18 months ago, we were in the zero.

Rebecca Quick

Right. Even if you get past the CMA in the U.K., the FTC has been pretty tough on this, too. And Lina Khan has made some pretty tough statements even in the last week or so. Continues to say that there needs to be more regulation of companies, and that they're going to be taking a very hardline at this.

And I just wonder what you think that means broadly for mergers and acquisitions and for competition in the United States?

Bobby Kotick

I don't think it's great for America to have the government preventing you from what are sensible business combinations. When I look at GRAIL as a great example. This is an extraordinary company with incredible technology that actually can help prevent cancer.

Rebecca Quick

The illumina. Yes. The deal that they tried to put back in.

Bobby Kotick

And so I think what we want to try and avoid our government doing is preventing things that are going to create opportunity for innovation and growth and especially for American companies and American workers who now have to compete on a global scale in a way that we never have before.

And so I just hope that I think some rational thinking will start to come into government when it comes to protecting the American consumers, American workers and American businesses.

Rebecca Quick

Bobby, I want to thank you for being with us today. It's always a pleasure, and we really appreciate your time today.

Bobby Kotick

Thank you guys for having me. I really appreciate it.

Rebecca Quick

We'll see you back in there because you're not leaving early this time, right?

Bobby Kotick

And I'm here for the duration.

Rebecca Quick

Okay. Bobby Kotick. Right now, we want to go over to our Squawk Box supervising producer, Katie Kramer. She is live on the showroom floor right now. She's been checking things out over at the Oriental Trading booth. And Katie, what are you learning? It's good to see you.

Katie Kramer

Good to see you guys, too. You really get the festival feeling of Woodstock for capitalists when you're on the showroom floor. 20,000 square feet of shopping experiences, activations, dozens of Berkshire portfolio companies have experiences here for shareholders.

At Oriental Trading, they are celebrating retro. This year, we have some rubber duckies of Warren in 1973, with the Duck Street Journal. We have a Charlie rubber duck, who's wearing a leisure suit, that's also perfect for celebrating the retro look.

And a special -- a couple of special guests actually Flo the Flamingo from Oriental Trading and probably the youngest shareholder here. How are you guys? Where are you from?

Unknown Attendee

We are from Kansas.

Katie Kramer

And is this your first time at the annual meeting?

Unknown Attendee

Second time.

Katie Kramer

Who's this handsome guy?

Unknown Attendee

This is Logan. He was here last year, too. He was in utero still though.

Katie Kramer

Welcome to Omaha, Logan. I think we're going to do some shopping and I'll send it back to you guys. Thanks so much.

Rebecca Quick

All right. I think that boy needs some duckies. Let's make sure we get him some duckies, and anything else we can find along the way. And Katie, I don't know if you looked over your shoulder, you got somebody watching you.

Katie Kramer

I had a feeling. I definitely had a creepy feeling.

Rebecca Quick

Katie, thank you.

Katie Kramer

Thanks, guys.

Rebecca Quick

There's a choice.

Michael Santoli

One of the shareholders said, if you want to be a hero around the office, go and get some of the trinkets and stuff.

In the meantime, Berkshire company, Clayton Homes, makes attainable housing, mobile modular or manufactured housing for a middle-class consumer. We tagged along for a tour of the model home Clayton is shown here at the Berkshire Annual Meeting.

The company announced it's moved to build all new residential manufactured homes to Department of Energy, Zero Energy Ready home specifications by 2024. CEO, Kevin Clayton showed Warren Buffett around.

Unknown Attendee

This home travels in one section down the road. So that's one that helps with the affordability. So less transportation costs, less setup costs, and then we will build the [indiscernible] and the garage on their site. So the GSEs now are saying maybe allow a single section as well under the CrossMod program.

Warren E. Buffett
Chairman, CEO & President

What the truck stop [indiscernible]

Unknown Attendee

Okay. You'll see some many Berkshire products used throughout the time from all the flooring insulation, the biotech game bills. Warren doesn't make [indiscernible] cost and quality.

Warren E. Buffett
Chairman, CEO & President

Do what's best for Clayton and for the customer.

Rebecca Quick

Also, with mortgage rates more than doubled since what we've seen happening earlier in the year. Go ahead, you can roll any time if you'd like.

Since the Fed's first of 10 consecutive rate hikes in the last 14 months, finding affordable housing is obviously difficult for a lot of prospective buyers. Looking at the Clayton House, with a price point of under $200,000, of course, that doesn't include the land, but that's for them to come out, set the house up, put it all and get it ready to go.

That's what caused Warren Buffett and Charlie Munger to actually reflect on their own homes.

Warren E. Buffett
Chairman, CEO & President

Charlie lives in the house that he was [indiscernible] in 1950. I met him, and I had just moved into my house in 1958. And we're both in the same houses. I don't know how many people that have changed their situation.

Charles Thomas Munger
Executive Vice Chairman

[indiscernible] Marble Palace in Beverly Hills. [indiscernible] I went to dinner there, and I said, I do not need a marbles.

Warren E. Buffett
Chairman, CEO & President

Charlie built me a little house for me in the back. But he's -- I've got one house still. And how many houses do you have, Charlie?

Charles Thomas Munger
Executive Vice Chairman

7.

Warren E. Buffett
Chairman, CEO & President

What?

Charles Thomas Munger
Executive Vice Chairman

7.

Warren E. Buffett
Chairman, CEO & President

7. Yes. He's real estate poor.

Rebecca Quick

Yes. Charles says he's got 7 houses, but he said, that's the ones my kids and my grandkids live in. I think it's his house and then the place that he used to always go in Minnesota, way up in the summertime. Those are the two places he goes. And he still does go there. He's been going there every year since it was a kid.

Michael Santoli

I mean over the course of 100 years, it's not that many houses to acquire. It's a reasonable pace maybe if you're lucky. Well, with us now is Berkshire Director, Howard G. Buffett, also Chairman and CEO of the Howard G. Buffett Foundation, focusing on food security and conflict mitigation.

His new book, [Courage of a Nation,] deals with his experiences in Ukraine. He's traveled to Ukraine 7x since the Russian invasion, and his foundation has donated $150 million in humanitarian efforts there, with plans to double that this year. Howard, thank you for joining us.

Howard G. Buffett
Director

Yes, it's great to be here.

Michael Santoli

Well, I mean let's just start right there in terms of your assessment of your work there and just the state of things.

Howard G. Buffett
Director

Yes. I mean it's a really tough place right now. And I think the hardest thing to watch when they're there is the -- it's a war in civilians. And Russia has been very brutal about how they've implemented this invasion. And so you have a lot of people that are suffering, people go to bed. It doesn't matter where you are in Ukraine, you go to bed. You don't know the missile is going to hit you that night. That's a pretty tough situation to live in.

Rebecca Quick

Howard, how many times have you been there?

Howard G. Buffett
Director

Well is there once in 1991. When it's a Soviet Union, which is interesting to compare it to today, and then I've been there 7 times. I have three more trips planned this year.

Rebecca Quick

How did you get involved with it? How do you meet because you have met with the President Zelenskyy?

Howard G. Buffett
Director

Several times. Yes. Well, when Russia invaded, it became clear to me right away. It was going to have a huge impact globally on food security. So we started looking at where would we fit in. And of course, the most immediate things we've done have been in Ukraine, but we have also supported some of the grain going out, the World Food Programme to Ethiopia and Yemen and some other places.

I think that unless there's something significant that happens, this war could drag on for a while. And that just -- a lot of people are going to suffer from it. And it's not good for the world. It's not good in terms of food security, it's not good in terms of how other countries are going to cooperate.

Rebecca Quick

Maybe we should back this up a little, just your expertise when it comes to this. You have a foundation that focuses on about three major causes, one of them is food security. And you know what you're talking about because you're a farmer, too.

And you are not just a farmer in theory, you're one in practice, who spends a lot of time out in the field. And by the way, traveling the world to try and find the best way to come up with new ways to grow crops.

Howard G. Buffett
Director

Well, I plant soybeans last week. So that was to your point. But yes. I mean, look, we -- you talk about global food security, you think what does it really mean? All of us are going to be able to walk in the grocery store. We're going to have access to food, price might go up, but we can afford to buy it. There's 3 or 4 billion people on this planet that don't have the same options we have.

And so when you think about it, we're going to see the largest deficit in rice production this year. You've seen the crops affected in some places in South America, now Brazil has done well.

But at the end of the day, the world needs a lot of food. And when you can't -- Ukraine has been a major producer of that, feeding over 400 million people a year. When you take that out of the equation, there's no way to just immediately step in and make it up.

Michael Santoli

Sugar prices are going to the moon right now, too. I know that's also a production issue in part. A year ago, when we were here, might have seemed as if things might get even more dire in the short term in terms of just global food prices and the ability of getting things around. There's at least a perception that it wasn't as bad as it could have been. Is that correct? I mean it doesn't address the chronic issues, but just over the last year.

Howard G. Buffett

Director

Yes, I think that's correct from the standpoint that you saw prices spike more and come back a little bit. But I think part of that is related to -- the negotiated deal got the Black Sea open to the degree that some exports are going out, not to the level that they would have been historically.

But I think that's had some impact on things coming back down. I mean any little thing can trigger something. And so I think right now, there are a lot of people in the world that still don't have access to food, and they can't afford food.

And if you look at last year just in Eastern Africa, World Food Programme estimated that a food -- a family food basket went up 55%. I can tell you it didn't come back down 55%. So I mean, you have -- and the other thing you have to think about is a lot of these places when you start to talk about food security, you're talking about areas that are very volatile.

They're not necessarily very stable. Some already are experiencing conflict. So the triple down effect which isn't such a trickle. I mean, it's bigger than that, really from Ukraine and not being able to export the types of commodities they typically export. It actually is creating some conflict around the world, and it will create additional conflict. So it goes way beyond just food security.

Rebecca Quick

Maybe more of a waterfall effect than...

Howard G. Buffett
Director

Yes, exactly.

Rebecca Quick

Howard, while we're here, let's talk about Berkshire Hathaway and your role at the company. You've been a director for a while. And part of what you're supposed to be doing there is maintaining the culture within and making sure that this place stays true to what your father, Warren Buffett and Charlie Munger, have laid out for how this is a different company.

We had a lot of discussion this morning about succession. What did you think about that? What do you think the challenges are going to be on that front?

Howard G. Buffett
Director

Well, I think you never know exactly what they're going to be. I mean, in fact, typically, you'll be thinking about there are going to be these certain things that are going to come up and something else will come up that you just haven't really anticipated.

But that's what the Board does, and that's what they're supposed to deal with. I think that hopefully, my dad lives a long time. Follow Charlie's example, and he's around a long time. And then the Board will be faced with some tough decisions. But we've got a great board. It's a very cohesive. People understand what my dad has built and they understand what my dad wants in the future.

And that's -- it's not hard, it's really not rocket science to do this. I mean it's just really being disciplined and sticking with what the principles and values have been that have been established, and that's really not that hard to do.

Michael Santoli

One maybe longer-term concern that I've heard expressed is that under different management, maybe the company wouldn't have quite as easy a time as getting all these great acquisitions from people who want to be able to say, "I sold my company to Warren Buffett?

Howard G. Buffett

Director

I think you're going to see Greg set an example quickly that nothing's changed in Berkshire. And when people understand that nothing has changed with Berkshire, then they will still for the same reasons, it may not have quite the same appeal of sitting down with my dad, but if they're really looking for protection long term or they're looking at the examples he gave this morning about how people care about owners care about their employees. Those things won't change. And I think that will get established probably quickly.

Rebecca Quick

Howard, again, I want to thank you for joining us today. And the book is called Courage of a Nation. You've got to print it just in time.

Howard G. Buffett
Director

Yes, just for you.

Rebecca Quick

It was a personal electronic book, but you got to print it. There's tons of picture from your journal -- journeys there and your travels. And we really appreciate your time.

Howard G. Buffett
Director

Thank you.

Rebecca Quick

Thank you. All right, folks, another global hotspot came up in the morning session today. Warren Buffett and Charlie Munger being asked about steadily increasing tensions between the United States and China. And once again, Charlie Munger, not mincing any words.

Charles Thomas Munger
Executive Vice Chairman

There's been some tension in the economic relationship of United States and China. I think that tension has been wrongly created on both sides. I think we're equally guilty of being stupid.

There's one thing we should do, let's get along with China. And we should have a lot of free trade with China in our mutual interest. And I just can't imagine, it's just so obvious. There's so much safety and so much creativity that's possible.

Think what Apple has done by engaging in a partnership with China as a big supplier. It's been good for Apple and good for China. That's the kind of business we're doing with China and more of an everything that increases the tension between the two companies. It's stupid, stupid, stupid. And we stop on each side, and each side respond to the other side's stupidity with receptible kindness.

Rebecca Quick

It sounds like the solutions to a lot of life problems in all of our lives, right?

Michael Santoli

It does, even if it's not necessarily realistic in the current political setup, but yes, absolutely.

Rebecca Quick

I'm trying to take it on a smaller scale, figure out if I can use it.

Michael Santoli

That's the way to do it.

Rebecca Quick

Things are about to heat up again. More questions are coming in just about 6.5 minutes. So I'm going to ask you to back inside. Mike, I'll see you in just a little bit.

Michael Santoli

Absolutely. We only got, what, 35 more questions to get to, according to Warren's quota.

Rebecca Quick

Exactly.

Michael Santoli

Got to get over there. All right. More than 20,000 Dairy Queen trees will be sold here this weekend. Berkshire bought the fast food and ice cream shop 25 years ago with $600 million. Last year, reached all-time record sales of $5.7 billion.

Becky caught up with CEO, Troy Bader, on the floor yesterday.

Rebecca Quick

This is a day where you got a lot of excitement, a lot of things happening. In fact, earlier today, Warren Buffett and Charlie Munger stopped by. What do they say to you when they came here?

Troy Bader

They did. Actually, I have to confess. I wasn't here at the time. I was at a lunch with some of the other managers. What they said -- they said, he's here. He actually had an opportunity to talk to some of our executives here. And they talked a lot about what the pandemic met? What changed during the pandemic? How did technology change? How did the consumer change? So some really good conversations. And again, it shows how connected Warren is with even our business.

Rebecca Quick

Yes, I will tell you, Charlie -- I saw Charlie here when he was talking with Warren, we've gone into talking to everybody. i was talking about Charlie. He said, "Wait a second. They're selling daily bars for $1? How can they possibly charge that much? That's way more than they charge at the store, right? And I said no. How much [indiscernible]

Troy Bader

Well, it's going to vary. Our franchisees set their pricing, but it's significantly more than $1. They're usually going to be north of $2.

Rebecca Quick

That's what I told him. I told him $2, $2.50, something along those lines. And he was shocked. Prices have come up. But that's really speaking to inflation, and a big issue that a lot of people have to deal with. It's something we've talked about last year, too. Where do you think stand from the inflation point?

Troy Bader

Inflation has been a real challenge over the last couple of years. It's no surprise to anybody. We are seeing in our business, it's hitting us in a couple of different ways. Obviously, it's hitting us from the cost of goods for our franchisees, the groceries coming in the back door.

And how can they price accordingly to offset the inflation that they're experiencing, both in labor costs but also with the groceries. And that has been a real challenge. And the margins are getting thinner because you can't increase price at the same rate that we're experiencing from an inflation standpoint.

The other piece is hitting us is on the new restaurant development costs, cost of equipment, cost of construction has significantly increased. And it definitely is putting pressure on that end of the business as well.

Rebecca Quick

Is it slowing your expansion plans? Or do you just caught it up and pay for the cash?

Troy Bader

Yes. I mean, people are, for the most part, taking a long-term view of development. And so we are continuing to move on. We opened about 300 new restaurants last year. We will be north of that number this year. The bulk of our growth is still going to be in our international markets, which isn't new. But franchisees are pausing, but they're being very strategic in taking a long-term view.

Michael Santoli

Berkshire is the largest shareholder in both Occidental and Chevron. At the end of Berkshire's first quarter, its Chevron stay clocked in at more than $21 billion, but that was a drop of nearly $9 billion from the previous quarter, while at the end of March, Berkshire boosted it stake in Occi to about 24% of that company.

Joining me now to discuss Buffett's Energy is CBC.com reporter, [indiscernible]. It's great to see you.

Unknown Attendee

Great to see it to you.

Michael Santoli

So that decline in the Chevron stake was not just Chevron share price going down. They were a net seller of the shares.

Unknown Attendee

Right. Chevron was down 9% in the first quarter. But I did the calculation, Berkshire did sell about $6 billion of Chevron. So he trended a little bit for the second quarter actually. If we did that also in the fourth quarter.

And Berkshire was a net seller of stocks last quarter as well, about $10 billion worth of stocks. And I was thinking about what he might have sold during the quarter. Do you think it could be Paramount because Paramount had a tough, tough week last week, down almost 30%. Earnings missed, dividend cut. And in Japan with Becky, Buffett mentioned that streaming is not a very good business.

So I was wondering if this is a speculation. If he thought this could be -- Paramount could be bought, could be taken over because of the consolidations in the media industry. Or he could have just -- he probably dumped it in the last quarter. So we'll see.

Michael Santoli

Yes. In fact, John Rogers of Ariel, who we spoke to this morning, who is also an owner of Paramount. And he was very eager to hear that as well. There has been some speculation.

We should be clear that in the 10-Q, in the quarterly filing, they only disclosed the very largest equity holding.

Unknown Attendee

Yes. top 5.

Michael Santoli

So we know that they were a net seller of about 10 billion of equities. You can say that Chevron was, what 6 billion or 7 billion of that or more?

Unknown Attendee

Yes, yes, 6 billion. Yes.

Michael Santoli

And so therefore, there's a $4 billion in sales that we can only speculate.

Unknown Attendee

Right. Yes.

Michael Santoli

And we were talking about Activision as well?

Unknown Attendee

Activision. Yes, it was -- it was one of his investing managers who bought Activision first before the Microsoft deal announcement. And then Berkshire -- and then Buffett, he added to about $4 billion. And then he said, it was a merger arbitrage to play.

And now that the U.K. regulators, they just blocked the deal. So the chances of the deal going through are pretty slim right now. So we'll see what happens with that bet.

Michael Santoli

And did anything else stand out to you this morning in terms of the Q&A, in terms of how Buffett spoke about, how he's thinking about his investments?

Unknown Attendee

Yes. So I think there was a very interesting debate about value investing. And Charlie and Warren, they kind of disagree on that, too. And Charlie put it very plainly. He said, "Just get used to making less."

And Buffett, he was actually very optimistic. He said, there's always opportunities. And what gives you opportunities is actually other people doing dumb things, right?

Michael Santoli

That's right.

Unknown Attendee

And he's known for jumping into the market when people are panicking when people are selling. And he also talked about buying more under the radar opportunities. Like what he did with Japan, he bought 5 trading companies in Japan, a very large bet for Berkshire. And he said in the room, he's not done with Japan. He's looking for more.

Michael Santoli

He characterized that investment almost as incredibly obvious. It was a no-brainer. We could borrow yen. We have more coming in dividend yield than we are paying in debt. He also though did describe his sale of Taiwan Semiconductor, after only holding it for a short period.

Unknown Attendee

Right. And he kind of mentioned it was a consideration of the geopolitical tension. Nothing too serious, but there is some volatility around there. And it is very rare to see him go in and out a position that quickly within the quarter.

But he spoke very positively about China. And how -- and Charlie Munger put like, he said, the conflict between the U.S. and China is very, very stupid. And we should encourage more free trade between the two countries.

Michael Santoli

They both seem to agree on that, although Charlie seems to think that there's a little more opportunity, at least in his own investing in some domestic Chinese companies. It's interesting. Now he also -- Buffett or Berkshire bought back a fair amount of stock in the first quarter as well, right, $4.4 billion?

Unknown Attendee

$4.4 billion more than -- it's the most amount of buybacks since the fourth quarter of 2021. So it's pretty significant. And so Berkshire only buys back shares when they think it's trading at a significant discount to intrinsic value. But now the Berkshire stock is almost back, not that close -- far away from its record high, almost at [$500 million].

Michael Santoli

Yes. And in fact, I think the stock now is valued about 1.4x book value. That's on the upper end of its historical range. It doesn't capture the whole intrinsic value as they would calculate, but it is quite fascinating. Not a lot of specifics about banks or financial holdings.

Unknown Attendee

No. No, not at all. And not a question directly about the cash holding. It was about $130 billion at the end of the last quarter. And I think Buffett has been waiting this long with interest rates at 0%, but interest rates are at 5%. So it will take something even more special for him to pull the trigger. And he's happy to wait and he's getting paid for waiting right now.

Michael Santoli

That's a great point. And he did talk about how they just obviously on all their -- the cash, all the float, they really do have an opportunity. It's baked in that they're going to have a lot more interest income. I did like the way he described the flow, the amount of cash that comes in through their insurance business. He said, it's like we have a bank with no customers, no employees, and nobody can pull their money. Nobody can pull deposits out. So seeming to draw a contrast between actual banks right now dealing with deposit life.

Unknown Attendee

You're right. [Actual] and deposits and insurance business. Very different.

Michael Santoli

Yes. Also likes to -- I think, essentially, point out the strengths of his insurance business relative to anything that looks like a startup or a high-tech fintech.

Unknown Attendee

Right. Yes, especially GEICO, who had been struggling a little bit when compared to Progressive, its biggest competitor. And now it turned a profit, it turned an underwriting -- a big underwriting profit this quarter.

Michael Santoli

It was a big swing in the first quarter.

Unknown Attendee

Yes. A big swing and Ajit was very happy about it.

Michael Santoli

Exactly. He had a good story to tell this year versus last year on that score. Thanks very much. We'll talk to you again soon. We do want to return back. We're just moments away from the afternoon session of Q&A, but stick around for CNBC's postshow. Longtime shareholder and value investor, Tom Russo and actress Glenn Close will join us. So be sure to stick around for that. Buffett and Munger are retaking the stage for shareholder questions with Becki. They will be alternating questions from Becki, which came by way of shareholders as well as live questions from investors that are out in the audience.

And Warren is committed to getting to 60 questions over the course of the day. We got to about 25 in the morning session. And Charlie and Warren are now about to take the stage. Let's take you there, back to the arena.

Warren E. Buffett
Chairman, CEO & President

Okay. Take your seats, please. Sales are terrific out there so you're my kind of crowd. I've been getting reports. We're breaking all kinds of records. And we're going to start off with question #26, which goes to Station 2.

Unknown Attendee

Warren and Charles, my name is James from Malaysia. Given the recent challenge faced by the major U.S. bank, what is your overall outlook on the banking industry? How do you assess the risk and the opportunity in this section?

Warren E. Buffett
Chairman, CEO & President

Well, anticipating a few questions on banks. I decided we should start using bank language here. That's fine. And Charlie -- the situation in banking is very similar to what it's always been in banking that fear is contagious, always. And historically, sometimes the fear was justified and sometimes it wasn't. My dad lost his job in 1931 because of a bank run and they had a bank run on state banks. And that will be on one national bank. He said, well, we're a national bank, and they didn't have a run on the national banks.

And of course, they both faced the same problem. So it used to be that if you saw people lining up at a bank, the proper response was to get into the line. And they'll always leave it, and the story is that Sidney Weinberg of Goldman Sachs during one of the great bank runs back in 1907 or thereabouts, had a job is a runner at Goldman Sachs and asked his boss if he could take the week off. Boss says, sure, not much is going on anyway. So he got in line with whether it's a Knickerbocker Trust or whatever. And as he got toward the front of the line, he sold his place in line to somebody. He didn't have an account with the bank, but that was an asset.

And the banking system has changed so much over the years, and we did something enormously sensible, in my view. When we set up the FDIC, as many as 2,000 banks failed in one year back after World War I. I mean bank runs were just part of the picture. And if you have people that are worried about whether their money is safe in the bank and all of a sudden withdraw it, you can't run an economy very well.

So the FDIC was very logical. It's got changed over the years some. But here we are in 2023 and we actually see the FDIC pay off the 100 cents on the dollar to everybody or make it available on all demand deposits and yet you still have people very worried about their -- periodically, geographically, all kinds of crazy ways. And that just shouldn't happen. So the messaging has been very poor. It's been poor by the politicians who sometimes have an interest in having it poor. It's been poor by the agencies. And I'd say it's been poor by the press. I mean you shouldn't have so many people that misunderstand the fact that although there may be a debt ceiling, it's going to get changed.

Although there's a $250,000 limit on FDIC, the FDIC and the U.S. government and American public have no interest in having a bank fail or to have deposits actually lost by people. We had a demonstration project the weekend of Silicon Valley Bank and you probably get still confused. So it really -- it's something to have a law that was passed in -- or a law that became effective in 1934, although modified in some ways, not understood about something that's important as a banking system.

I don't think the American public is that dumb. And I just -- well, I made that offer over in Tokyo incidentally, but I haven't heard from anybody that wants to take up my $1 million bet on whether the public will lose money and if they have a demand deposit at a bank, no matter what the size. So that's the world we live in. It means that a lighted match can turn into a conflagration or it can be blown out. And who knows what will happen. And we don't have any worry. We keep our money into cash and treasury, both at Berkshire because we keep $128 billion or whatever it was at the end of the quarter.

And we want to be there if the banking system temporarily even gets stalled in some way. It shouldn't. I don't think it will, but I think it could. And I think that the incentives in bank regulation are so messed up and so many people have an interest in having them messed up, it's totally crazy. I mean if Fannie Mae and Freddie Mac were doing 40 or so percent of the mortgage business in the United States. That is huge. They were regulated -- it's just those 2 companies were regulated by some group, I forget what they're called, but they had 150 people that were in charge of just figuring out whether Fannie and Freddie we're doing the right thing. But I could have done it and Charlie could have done it.

And I'm not sure they needed an assistant even to do with it. But the incentives were all wrong. And Freddie and Fannie, which were doing fine in August of -- or apparently doing fine in July and August of 2008, were put into conservatorship early in September. And the things that followed from that was just incredible. So there are second order and third order and fourth order effects that are somewhat unpredictable as to what they will be and the sequence and all that, but things change. And if people think that deposits are sticky anymore, they're just living in a different era. Press a button. You don't have to get in a line and wait for days and have the teller counting out the money slowly in gold. The line goes away.

You're going to have a run in, in a few seconds. So the way it hasn't been addressed properly is a problem and who knows where it leads. But you will have to have a punishment for the people that do the wrong thing. And if you take First Republic, for example, you could look at their 10-K and you could see that they were offering nongovernment guaranteed mortgages to -- in jumbo amount at fixed rates, sometimes for 10 years before they change the floating. And that's a crazy proposition. If it's to the advantage of the bank, they got to -- they get the guy coming in and says, I'll finance at 1.5%, then 1%.

And if it's managed the other way, [who keeps up] 10 years. You don't give options like that, but that's what First Republic was doing. It was in plain sight. And the world ignored until it blew up. And some of the stock in some of these banks that were held by an insider was sold and who knows whether they had a plan or whether they -- some plan that was innocent or the that they started sensing what was coming, but you do know that the directors are not going to be able to read some book or anything like that, but they do.

They do have the ability to hold the CEO accountable. CEO gets -- That's the bank in trouble? Both the CEO and the director should suffer. The stockholders of the future shouldn't suffer. They didn't do anything. It doesn't teach anybody any lessons or anything. It teaches the lesson is that if you run a bank and you screw it up, you're still a rich guy in the clubs don't drop on and charity groups don't, but asking her benefits, and the world goes on. That is not a good lesson to teach people who are holding the behavior of the economy in their hands. So I think there's some work to be done, but I don't think it's -- it's not a difficult problem. It's just we've screwed up the answer and we screwed up the communication of it. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, I'm so old-fashioned that I kind of liked it better when banks didn't do investment banking. That makes me very outmoded in the modern world.

Warren E. Buffett
Chairman, CEO & President

And the country decided it was contrary to public interest for a while. And then the banks wanted to get back into it.

Unknown Executive

Did they ever? I mean no. I mean...

Warren E. Buffett
Chairman, CEO & President

But I don't think having a bunch of bankers, all of them are trying to get, rich, leads to good things -- but I think a banker should be more like an engineer. He's more like avoiding trouble when he is getting rich.

Charles Thomas Munger
Executive Vice Chairman

Yes. And they could do fine.

Warren E. Buffett
Chairman, CEO & President

They can do fine that way. And I think we're going to be with stake and we get a bank where everybody who joins it plans to get rich. It's a contradiction in values.

Charles Thomas Munger
Executive Vice Chairman

And we came to that conclusion. I don't want [glassed heels] past or anything, but then they want to get back in -- how many of you known? And I -- maybe I brought on this, I haven't looked lately, but the Federal Reserve actually was given the responsibility for setting margin requirements. And they change margin requirements a lot of times because it was known that people that borrow a lot of money cause a danger to the banking system, and we get too many in the picture and all of that sort of thing.

And what's happened? The banks are going to have a thousand different ways to get so you get borrowing 100% margin, I mean, through derivatives and everything. It's just totally distorted every -- all the lessons that were learned in the '29 crash and...

Warren E. Buffett
Chairman, CEO & President

Imagine taking banking in the derivative trading. Who in his right mind would have allowed that?

Charles Thomas Munger
Executive Vice Chairman

Well, there's more money in it.

Warren E. Buffett
Chairman, CEO & President

Well, that's why they're in.

Charles Thomas Munger
Executive Vice Chairman

Yes. And -- but it isn't necessarily a great social outcome for the rest of us.

Warren E. Buffett
Chairman, CEO & President

That's what those Senate committees decided back in 1931 and '32. And then in the late 1990s, particularly, I mean, very decent people, but Bob Roman and some of the people, they said, this is the modern world, and here's what the modern world looks, turn out to hand us. And banking. Banking can have all kinds of new inventions, but it needs to have old values. And -- well, we don't know what's going to happen because there are a lot of things that could happen out of the present situation. Depositors will not lose money. Stockholders and debt holders of the holding company know it. They should lose money, and the people borrow that out on commercial real estate. And now it doesn't -- the loans aren't getting extended.

They should leave. It's too bad. I mean that's -- it's part of borrowing on 100% margin, which is what people were doing -- have been doing in commercial real estate. You've got to have the penalties hit the people because the problems, and if they took risk that they should know it needs to fall on them if you're going to change how people are going to behave in the future. Good. Becky?

Rebecca Quick

This question comes from Davis Hans in Houston, Texas. He writes, what do you think about the business models of the big banks as compared to the regional banks in the wake of the events at Silicon Valley Bank? And how does the perceived implicit guarantee of all deposits at all banks affect big banks and those regional banks?

Warren E. Buffett
Chairman, CEO & President

Yes. Well, I can say this. If you follow sound banking methods, which means you're not doing some things that other people do, a bank would be a perfectly decent investment. In fact, Charlie and I was, me originally in 1969, we bought a bank at Berkshire. And we had $19 million invested in that bank and we had $17 million, I think, invested in our insurance companies. And if the banking Holding Company Act of 1970 hadn't been passed, we might have ended up owning a lot of banks instead of a lot of insurance companies.

We were looking at more banks and [Harry Keith] was taking us around Chicago and there were other things we could do. And then bingo, they passed the 1970 Bank Holding Company Act, and we had to divest ourselves of that bank in 10 years, which we...

Charles Thomas Munger
Executive Vice Chairman

By the way, I've never had a bad debt. It never has an unnecessary cost. It made nothing but money with no risk. You never present it to any deposit insurance risk or the government. It was a lovely, sound, constructive institution in this community. Any person willing to deserve credit, can get credit.

Warren E. Buffett
Chairman, CEO & President

Yes. And we were going to buy banks.

Charles Thomas Munger
Executive Vice Chairman

And we were forced out of it.

Warren E. Buffett
Chairman, CEO & President

And we were going to buy more banks. And if we bought more banks, we probably wouldn't the big spend on the insurance business, but the law changed, and so we divested and we've done okay in insurance. But banking was more attractive to us. It was bigger and there were more targets to buy and you could run a perfectly sound bank then. And no negotiable certificates and -- all these things, all the inventions, they came later, and you could still run them today and you could earn -- you can earn good money, very good money, and we would have found more banks, but we're precluded from doing that.

And we sold banks -- bank stocks in the last -- well, we sold them first when the pandemic broke out, and then we sold some more in the last 6 months. And we don't know where the shareholders of the big banks necessarily or the regional banks or any bank are heading. I've got my bank, I've got my own personal money and I'm probably above the FDIC limit and I've got it with a local bank, and I think -- I don't worry about it in the least. But in terms of owning banks, events will determine their future and you've got politicians involved. You've got a whole -- a lot of people don't really understand how the system works.

And I would say that they've had something less than a perfect communication between various people and the American public. So the American public is probably as confused about banking as ever, and that has consequences. And nobody knows what the consequences are because every event starts recreating a different dynamic. I mean in physics, you know that pi is going to be 3.14 infinite number of numbers after that. But no matter what happens -- but you don't know what has happened to the stickiness of deposits, "Oh, it got changed by 2008. It's gotten changed by this." I mean -- and that changes everything.

And so we're very cautious in a situation like that, about ownership of banks, and we do remain with one bank holding a deal, but we originated that deal and -- with the Bank of America. And I like Bank of America. I like the management. And I propose the deal with them. So I stick with it. But do I know how to project out what's going to happen from here? The answer is I don't because I've seen so many things in the last few months, which really weren't that unexpected to see, but which we confirm my belief that the American public doesn't understand their banking system.

And some people in Congress perhaps don't understand it any more than I. I don't understand where the spaceships go. I mean there's all kinds of things I don't know about. But if you're in Congress, you've taken a position on everything. And sometimes it's to your advantage if you really understand it, not to say exactly what you feel and here where are. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, a lot has happened in banking in my lifetime. I welcomed all that early banking of the deserving immigrants by the early Bank of America. And I think all the credit cards when they came in as original bank cards were a great contribution to civilization. And -- but the game-ier it gets and the more it looks like investment banking, the less I like it as a citizen. I don't want -- I'm always -- I am deeply distressful in situations in which everybody wants to get rich and envies everybody else. I regard that atmosphere as utterly toxic.

Warren E. Buffett
Chairman, CEO & President

And the people who like one story, which is, again, a true story, and I'm not naming the name and it wasn't Pete Jefferies because he might fit this name, but it wasn't Pete. But our hero, [Gene Abag], was going to have to retire at some point. And so we hired future replacement. It's kind of a little problem I talked before about having the perfect business and now we're going to bring in somebody. We actually bring in somebody who went to Central High with Charlie all along.

Charles Thomas Munger
Executive Vice Chairman

My class.

Warren E. Buffett
Chairman, CEO & President

Yes. And Charlie didn't know I was picking up this guy. And he wasn't...

Charles Thomas Munger
Executive Vice Chairman

If you'd asked me, we wouldn't hired him.

Warren E. Buffett
Chairman, CEO & President

Well, if I actually, I probably wouldn't hired anybody, but that's another question. But this guy comes over. A perfectly decent guy, but presentable, looks like a banker and everything. And of course, the first thing he wants to do, we've got this wonderful bank, but we have the crummiest looking building in Rockford, and we don't need a great building. We just need a great banker. And naturally this guy wants to build a new building and -- because we were the most profitable bank, but we didn't look like it really was his problem.

So I told him, he could have any building we wanted as long as it was not higher than -- it had to be shorter than our nearest competitor. And he lost interest totally. He want to be on the top floor of the biggest building in town. And I told him he could horizontally do anything he wanted, but he couldn't do it vertically. It told me a lot about the guy's motivations in life, but -- and he didn't end up running the bank anyway. Anyway, that's all I know about banking probably more. Station 3.

Unknown Shareholder

Mr. Buffett and Mr. Munger, my name is Daphne, I'm 13 years old, and this is my sixth annual Berkshire Hathaway shareholder's meeting. And I've had the privilege to ask you both questions in years past. My question for you today is the following. As you know, the U.S. National debt is currently at an estimated $31 trillion, making up about 125% of the U.S. GDP. In the meantime, over the past 2 years, the Federal Reserve has telegraphed that they intend to monetize the debt by printing trillions of dollars, even as they insist that they're fighting inflation. Already other major economies in the world such as China, Saudi Arabia and Brazil are moving away from the dollar in anticipation of this.

My question is, are we likely to face the time in the future when the U.S. dollar is no longer the global reserve currency? How is Berkshire prepared for this possibility? And what can we do as American citizens to attempt to shelter ourselves from what's beginning to look like the beginnings of dedollarization?

Warren E. Buffett
Chairman, CEO & President

Well, I should ask you to come up here and answer some questions. I mean -- it's very interesting. I mean we are the reserve currency. I see no option for any other currency to be the reserve currency. And I think that nobody understands the situation better than Jay Powell. And I -- but he's not in control of fiscal policy. And every now and then he drops a few hints. And there was no question when the pandemic broke out, I mean, it was a semi war-like situation. But nobody knows how far you can go with the paper currency before it gets out of control, and particularly if you're the reserve -- world's reserve, of course. like nobody knows the answer to that.

And you don't want to try and pick out the point of where it does become a problem because then it's all over. And I think we should be very careful. I mean we all learned Keynesianism and we applied in World War II to the advantage of the country, and we did every -- we could to prevent inflation during the war. And then war ended in August of '45 and I think in January '46, and I'm not giving you exact figures at all now, but in January '46, I think the rate of inflation was at something like 1% or thereabout.

And by the end of the year, I think it was at like 15%. And again, I'm doing this from long memories. But it's easy for America to do as a lot. But if we do too much, it's very hard to see how you recover once you let the genie out of the bottle and people lose faith in the currency, and they behave in an entirely different manner than they do when they feel it. If they put some money in the bank or have a pension plan or whatever it may be, that they're going to get to have something with roughly equal purchasing power.

And it just changes the economy and all kinds of things can happen then. And I can't predict them and nobody else can predict them. But I do know they aren't good. And we will see -- and I do this as -- I voted for both parties and it's not limited to politicians of either party or anything of the sort. People take positions. Some of them understand what they're doing, some of them don't understand what they're doing. And if they put me on some medical Board, I don't understand what I'm doing. It's not that -- there's nothing wrong with the fact that you can't master everything.

We can't all be Isaac Newton, but you can't go around pretending you do or making decisions on it. And we are not as well off in relations to curbing inflation expectations, which become self-fulfilling. And we are not as well off as we were earlier. And Berkshire is better prepared than most investments for that kind of a period. I mean I said this in the annual report, but we aren't perfectly prepared because there's no way to perfectly prepare. You don't know what course of action will occur.

And it's a very political decision now. It's a tribal decision to some degree. And you'll hope for leadership that actually will do something, recognizes the problem. And America is an incredible society, rich. We have everything going for us, but that doesn't mean we can just print money indefinitely, but -- as that. And it will be interesting to see how it turns out. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, at some point, printing money to buy votes will be counterproductive.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Executive Vice Chairman

And we don't know exactly where that comes. And if something is going to be dangerous and unproductive, you ought to keep it a fair distance away. Now if you have a culture that is exceptionally strong, like Japan, they have done some strange things there.

Warren E. Buffett
Chairman, CEO & President

But they couldn't have been a reserve currency.

Charles Thomas Munger
Executive Vice Chairman

No, of course not. And -- but Japan bought back most of the national -- they had most -- they had a lot of the common stocks and data -- just the Federal Reserve owns practically everything in Japan, and the country is working. It's in 30 years of economic stasis, but it's not going to hell. I really admire Japan. And -- but I don't think we should try and imitate it. I don't think we're as good as Japan at taking.

Warren E. Buffett
Chairman, CEO & President

They have a cohesive culture and we don't, Charlie.

Charles Thomas Munger
Executive Vice Chairman

Yes. That's exactly right. In Japan, everybody is supposed to suck up and cope, and in America we complain.

Warren E. Buffett
Chairman, CEO & President

So I hope you come next year with a tougher question. But -- and thank you. And I predict -- I would love to be being more to get today in the United States. I mean we can do a lot dumb things and get away it. We can't do it an unlimited number. There are people who care about that. And you have to be willing to be extraordinarily unpopular. I mean, Paul Volcker -- there are other Federal Reserve chairpeople that would not have -- and I don't know how he did it, it's just -- it's too uncomfortable.

And there used to be a politician in Nebraska. And if you asked him some really tough question, like how do you stand on abortion or -- he would look you right in the eye and say, I'm all right on that one. And then he move next. Well, that's what people have done basically on inflation. And they -- one way or another, they say, I'm all right on that, and then they don't really think about what the consequences of their actions could be particularly.

And it's so much fun to -- there's 435 of you. There'll just be 1 of 435 instead of being the person actually responsible. Anyway, I am still next to the question of 2 superpowers and when you get into really destroying a planet. Destroying the reserve currency of the world when there's really no [subset] and forget about all the toys with -- I mean that's a joke. Don't think of any tokens or that sort. That's madness.

But it's also madness to just keep running money, yes, and we know how to do it. And we actually came from a money printing economy in a world or 2 which was required, and we suffered significant inflation the price [leveled]. I mean there are a million ways to judge it, but maybe 10x is what it was then or something like that.

Well, that's getting close to the edge where you don't want to -- you don't want to hold dollars anymore. You want to hold something else. You want to hold real estate. You want to own an interest as a business. There's a lot of good -- your best defense is your own earning power. If you're the best doctor in town, if you're the best lawyer in town, if you're the best teacher in town or even if you're the 10th best or 10th -- you want to make a good living.

I mean the economy is productive. And you will succeed with your talents. But you won't succeed by hoarding dollars, you'll just be -- you'll just succeed by the fact that your value to the community, which is a rich community overall, is sustained. And so the best investment is always in yourself. That's the answer I would give you.

Charles Thomas Munger
Executive Vice Chairman

Well, we have a situation where we've learned to print money in gobs and little -- a big chunk of our young people go right into wealth management. This is...

Warren E. Buffett
Chairman, CEO & President

Like we did.

Charles Thomas Munger
Executive Vice Chairman

Yes. Like we did, yes. We are bad examples. And I want to say that I didn't realize wealth management was going to get so big when I went into it. And I want to apologize for what's happened.

Warren E. Buffett
Chairman, CEO & President

Yes. Well -- anyway, you did well. Becky?

Rebecca Quick

This question comes from Gary Gambino in Parma, Ohio who says he's been a Berkshire shareholder since 2004. He says the amount paid this year for the 41.4% stake in Pilot values the entire company at around $19 billion. That's about 6x what BP is paying for travel centers of America, but Pilot's market share is just 3x TravelCenters of Americas. Was it a big mistake to base the final price on 2022 earnings, which has unusually high fuel margins?

Warren E. Buffett
Chairman, CEO & President

Well, that's a very good question. And the answer is that we arranged to buy it in 3 stages with the third stage being at the option of this owner of 20%. The first stage we bought what turned out to be a very attractive price. The second stage turned out to be a very good year for the diesel business, which means that the seller got a very good price. And I would say that overall, we feel very good about the fact we -- only 80% at the price that we do, but we would have rather owned, if we just bought the 80% to start with.

And the last 20%, the seller has the option, and that's always an unintelligent way of structuring something. We've had that arrangement with other -- well, we've done it with the Furniture Mart. We bought 80% of the Furniture Mart on August 30, 1983, almost 40 years ago, and it's worked out perfectly. But when you give the other person the option, they've got some advantage. We have 80% now of the business we like very much. And the comparison to Travel America is really spurious because Travel America, not only much smaller, but they run all their properties.

We have hundreds and hundreds of locations on the interstate. There are zones for what we -- commercial, like maybe 15 acres or 12 -- there's nothing like it. And they're not going to move the interstate 2 miles to the right or something or anything of that sort. So we've got a position that -- BP may or may not have made a fine deal. I've read the prospectus. And I can understand, I mean, it's a big source of output for BP, but I like the management we have had at Pilot.

I like very much the fellows coming in. It's a new CEO. I just have to tell you a little bit about Adam Wright, who's taking that job on. He came from Omaha. He wasn't selected because he came from Omaha. He came from Omaha. He came from North High, a public school my wife graduated from. I've got grandchildren that graduated from there. He went to University of Nebraska, had almost set the rushing record in football, which will never be beaten because they've given up football, but I think he rushed for maybe 3,600. Held 3 jobs while he went through there. He interned at Mid-America 20 years ago. His mother worked to put them through school.

I mean it's just -- it's Horatio Alger squared. And we have him to manage Pilot and the Haslams have given us a wonderful business. They -- big gentleman. He -- Jimmy, great people. And here we are. And I'm glad -- I'm very glad we own Pilot. I just wish we bought 100% of -- when I first made the deal, but that was not the deal.

Charles Thomas Munger
Executive Vice Chairman

Warren, it wasn't for sale. It wasn't for sale.

Warren E. Buffett
Chairman, CEO & President

Yes. And then certainly, we -- the last 20% of the Furniture Mart wasn't for sale when we bought it. So we bought 80% of it. And that's worked out well. And we've done various deals, various ways. The best way to do it is just write people a check and get the stock. We did that with TTI, but you can't always make the same deal. We make -- if we like the business well enough and the people well enough, we will tailor it differently, but our preference is to provide a check and own the whole place and keep the management in place. Got anything to add on?

Charles Thomas Munger
Executive Vice Chairman

No.

Warren E. Buffett
Chairman, CEO & President

Yes. I hope -- it's really wonderful to watch something like Adam Wright work. I mean basically -- I don't know what his mother was earning, but he went to North High, which is probably 4 or 5 miles from here. Public school graduate and worked his way up, went for a short period at Pacific Gas and Electric and we brought him home to run Pilot. And Pilot -- well, Pilot, the prices on diesel were way different last year.

Pilot is close to $80 billion of sales last year but more normal prices. It's significant and it's half that or thereabouts or maybe a little more.

But he is -- I don't know how old Adam would be, but he's in his 40s and he came up through the organization that Greg Abel was involved with and now here he is, running a very major business. It's good at Berkshire to be able to do that. And I don't -- somebody else may have gone to more prestigious business schools, I think. So what. We see what Adam can do. Okay. Station IV.

Unknown Shareholder

Good afternoon, Mr. Buffett, Mr. Munger. My name is JC. I'm 15 years old, and I'm from Ohio. This is my fourth in-person Berkshire meeting. I have a lot of passion learning from your speeches, interviews and articles. Thank you for sharing your wisdom all of the time.

Mr. Buffett, in your annual shareholder letter this year, you said that Berkshire's journey consisted of continuous savings, the power of commanding, the American tailwind and avoidance of major mistakes. You have humbly admitted in the past that you have made many mistakes. But this is the first time that major mistakes stood out to me. Could you please advise us on what major mistakes we should learn -- we should avoid in both investing and in life. I would also like to have Mr. Munger's thoughts, too, please. Thank you very much.

Warren E. Buffett
Chairman, CEO & President

Well, let me -- Charlie said the major mistake he made -- you're lucky to be in the United States. Go around the world, they don't have a lot of choices in some places. But you should write your obituary and then trying to figure out how to live up to it. And that's that something you get wiser on as you go along. The business mistakes, you just want to make sure you don't make any mistakes to take you out of the game or come close to taking you out of your game.

You should never have a night when you're worried about investing. I mean assuming you have any money to invest at all. And you should just spend a little bit less than you earn. And you can spend a little bit more than you earn and then you've got debt and the chances are you'll never get out of debt.

I'll make an exception in terms of a mortgage on your house, but credit card debt -- we're in the credit card business, big time, and we'll stay in the credit card business. But why get behind the game? And if you're effectively paying 12% or 14% or whatever percent you're paying on a credit card, you're saying I'm going to earn more than 14% of money. And if you can do that, come to Berkshire Hathaway.

So it's -- I hate to say this when Charlie's around me, but it's straight out of Ben Franklin. And it's not that complicated. But you -- well, I'll give you a couple of lessons. Tom Murphy, the first time I met him, said 2 things to me. He said, always tell someone to go to hell tomorrow. Well, that was great advice then. And think about great advice, it is when you sit down at a computer and screw your life forever by telling somebody to go to hell or something else in 30 seconds, and you can't erase it. You haven't lost the option. And he said, praise my name, criticize my category. What makes more sense than that? I mean who do you like that criticizes you all the time? And you don't need to vilify anybody to make your point on subject to a discussion.

And then he -- I'll give you another general piece of advice. I've never known anybody that was basically kind that died without friends. And I've known plenty of people with money that have died without friends, including their family. And -- but I've never known anybody and I've seen a few people, including Tom Murphy Sr. and maybe Junior who's here, but certainly his dad. Hey, I never saw them -- I watched them for 50 years. I never saw them do an unkind act. I didn't see them do very many stupid acts either. I mean it wasn't that he was nondescript with anything, he just decided that there's no reason to do it. And what a difference that makes in life. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, it's so simple to spend less than you earn and invest truly and avoid toxic people and toxic activities and try and keep learning all your life, et cetera, et cetera and do a lot of deferred gratification because you prefer life that way. And if you do all those things, you are almost certain to succeed. And if you don't, you're going to need a lot of a luck. And you don't want to need a lot of luck. You want to go into a game where you're very likely to win without having any unusual luck.

Warren E. Buffett
Chairman, CEO & President

I'd add one more thought, too. You need to know how people can manipulate other people, and you need to resist the temptation to do it yourself.

Charles Thomas Munger
Executive Vice Chairman

Yes, the toxic people who are trying to fool you or lie to you, who aren't reliable meeting their commitments. A great lesson of life is get them the hell out of your life.

Warren E. Buffett
Chairman, CEO & President

Yes.

Charles Thomas Munger
Executive Vice Chairman

And do it fast. Do it fast.

Warren E. Buffett
Chairman, CEO & President

And I would add, Charlie won't totally agree with me, to attack fully if possible, too, but do get them out of your life.

Charles Thomas Munger
Executive Vice Chairman

Yes. Yes, I don't mind a little tact. Or even a little financial cost, but the question is getting them the hell out of your life.

Warren E. Buffett
Chairman, CEO & President

Okay. Becky?

Rebecca Quick

All right. This comes from Roger Lee Tan. He says, my name is Roger from Hong Kong, a long-term shareholder of Berkshire, admirer and follower of Mr. Buffett's and Munger's wisdom in principle. Both of you have said before that the most difficult problems in life are always people problems. And one of the key lessons you have learned to be able to live a happy life and a successful life is to stay away from negative people. My question is what to do if those negative people are your families? The people whom you can't simply stay away from?

Warren E. Buffett
Chairman, CEO & President

You minimize it. But you can't -- no, that -- I mean there's no question about it. Charlie gave an answer, I thought was master of tact the other day, when he says you always got to interact with people who behave well. And he says, of course, you have to make some exceptions in your family. But it was -- but it's true. And you really -- I don't know what it's like to have a drunken bullish probably father, but parents just generally. I mean how do you handle it?

It's very interesting that the MacArthur family, very famous John MacArthur, the man who set up the MacArthur Foundation, he had 5 kids and 4 of them turned out to be superstars of one sort or another and they have this crazy-eyed, somewhat drunken father, but they all decided the thing to do is get the hell out of the house. And so you had this, the father of the MacArthur Foundation that did that along with 3 of the siblings out of 5.

So I was lucky. I mean Charlie was lucky at -- it -- if you have -- I mean our fathers probably have shortcomings in both of us. But they would still be there for us. And if you have one that won't be there for you, it's a very tough problem. And I think one way or another, I probably would have gotten through with that -- through that if I had that situation. But I don't think -- I think my life would have been a lot different. Charlie?

Charles Thomas Munger
Executive Vice Chairman

I have nothing to add, but we're...

Warren E. Buffett
Chairman, CEO & President

Okay. Station 5.

Unknown Shareholder

Warren and Charlie, my name is [Sudhakar Reddy Annapureddy]. I'm from Bentonville, Arkansas, home of Walmart. I'm shareholder since 2019 and my daughters are shareholders since 2020. My question is -- this is my first time coming to shareholders, and my question is Walmart and Berkshire Hathaway has very great relationship. With BNSF, McLane and consumer goods like Fruit of the Loom and Garanimals and et cetera. My question is Garanimals is exclusively sold at Walmart and Fruit of the Loom is sold at many other retailers. How does Berkshire Hathaway decide some items are sold at some retailers exclusively versus others are sold at many retailers?

Warren E. Buffett
Chairman, CEO & President

Well, that's a good question, but obviously, you'd love to control -- if you have a product, you'd love to control the distribution and you're probably going to get better gross margins if they ask for you by name. I mean they just had an article about Bernard Arnault of LVMH and he's got a blue box at Tiffany and the blue box itself means something. And Coca-Cola, the bottle, meant something. In the 1920s, I think there was a study that kind of folks were bottle -- blindfolded and a very high percentage of the population could recognize it was Coca-Cola. When they can recognize not only the product, but the container, you're going to have good gross margins.

And if you're just another cola and there have been hundreds of them, and even if they have the distribution through something like Walmart, who has Sam's Cola, it just doesn't -- it's not the same. I mean here I am -- and 1886 or so, John Pemberton in Atlanta created it and they spent a very significant amount of money advertising. On the other hand, Hershey's didn't spend any money on advertising. So we have observed, Charlie and I both, have observed so many products, so many methods of retail, we really think we know quite a bit about it, and we also know how much we don't know about it at the same time.

And it doesn't mean that we want to go into retailing ourselves, but it does mean we've run, to some extent, what to avoid and we've learned when somebody really has something. Garanimals has something. It's just that there's only many -- Walmart does a great job of distribution for us, and it's a good product for Walmart. It's a good product for us.

And on Fruit of the Loom, they can sew lots of types of underwear and they can do a big volume, but we're not going to make as much money relatively to capital employed or anything with a product that has a whole bunch of competitors and if they could want the Garanimals [be animals] or something, it's not the sort of product that causes people to drive 20 miles out of their way to buy it or anything of the sort.

But if you're in a Walmart and you're picking up pajamas or something for the kid, and here she wants a particular product, and it's not -- and it's reasonably priced and everything and wears well, whatever, we will -- we're happy to have it distributed through somebody with the distribution power of Walmart and their design. They're very happy to have the product.

[indiscernible] is obviously better. If you own See's Candies than if you own the no-name candy company, particularly when people buy those as gifts a couple of times a year, I mean, they know that if they give them -- their girlfriend, if they give someone in the hospital, if they give a gift to Christmas or going to a dinner, they know if they hand the box of candy to somebody, they don't say at the same time here, I got a wonderful deal on this candy. I mean it just kills the moment, right? What they really want to see is a smile on the other person's face that they're receiving it and they get it.

So knowing what -- and -- See's box of chocolates, a, are not remotely in the market than soft drinks are and the product does not travel particularly. Hershey's chocolate didn't travel. I mean if you look at candy bars, what's popular in the U.K. isn't that popular in the U.S. and all kinds of things. Coca-Cola travels. There's 200 countries and roughly in probably 180 of them. It's a phenomenal product. And how do you do it?

Well, it helps if you started in 1886 and go from that point forward. So we've learned a lot. We've got a lot to learn, but we did learn something like Garanimals, we understood. When they came around, nobody ever heard of it. We bought it for very low price, as it turned out, in 20 years ago, and still nobody knows that we own it, and that's fine. But they know what Garanimals are. And it has legs. It keeps -- it just keeps going year after year. And some things are like pet rocks, and we're running all the time. Charlie?

Charles Thomas Munger
Executive Vice Chairman

I have nothing to add.

Warren E. Buffett
Chairman, CEO & President

Okay. You probably have never bought any Garanimals.

Charles Thomas Munger
Executive Vice Chairman

No, I never had. I don't even wear them. It wouldn't fit.

Warren E. Buffett
Chairman, CEO & President

Okay. Becky?

Rebecca Quick

This question comes from Barry Lafer in New York City. Berkshire owns about 94 million shares of Paramount Global as of the last published data. This asset-rich company is disappointed on recent quarterly earnings reports and just this week slashed its dividend by 80%. How do you see the streaming wars evolving? And do you still have conviction in your investment thesis? Is your investment thesis based on the company being an acquisition target? Or based on its fundamentals?

Warren E. Buffett
Chairman, CEO & President

And how would you like to manage my money for nothing? We are not in the business of giving stock advice to people and people who don't know anything about the stocks can make a lot of money doing that. We don't think it's something we should give away. But I will say this, it's not good news when any company passes this dividend -- or cuts its dividend dramatically. And the streaming business is extremely interesting to watch because there's -- people love to use their eyeballs watching, being entertained on a screen in front of them or a phone or whatever it may be. But there's a lot of companies doing it and you need fewer companies or you need higher prices. And -- well, you need higher prices or it doesn't work.

And you don't lock-in people when you get them to join up for the streaming period when your serial runs. I mean you can keep them on for a while. But you can't lock them up. And we'll see what happens. I mean I had a gasoline station, when I was 21 or 22 and it's about 3 or 4 miles from here. And we had one competitor and he determined our profit because he -- we looked at his price every day and if we cut the price, he'd match it, and we couldn't raise the price. And he did twice the gallon he sold. He won. And there's just basic business problems that you see with certain interests that you don't see with the other. Disney was unique, and it's animated, what it offered in the '30s and '40s. And they wrote the stuff off at first showing and then they rejuvenated, so -- all these other people every 7 years, and that was fine. But this is a different world, and the eyeballs aren't going to increase dramatically in the time they can spend and it's not going to increase dramatically, and you got a bunch of companies that don't want to quit. And who knows what pricing does under that? But anybody tells you what they know what pricing will do in the future is getting themselves.

Charlie? Charlie has had a lot of experience since [indiscernible] with Hollywood. I mean, he used to -- before I even met them.

Charles Thomas Munger
Executive Vice Chairman

I think the movie business is one tough business. That's my view.

Warren E. Buffett
Chairman, CEO & President

Yes. The talent will make the money, the agents will make the money. And if you've got a theater, the theaters are now doing 70% of the business as they did before the pandemic. And big hits have enormous grosses, but you can't reduce the supply. People have only got so many hours in the day. They've only got 2 eyeballs, and they got more choice than ever before, and they've got stuff that's cheaper that offers them the same experience. And some of them like the experience, particularly the big hits are going. But it isn't like you can double the number of people or double the eyeballs or anything like that, and you've got a lot of people. Because talent will always get paid. And when you essentially are packaging that talent 1 way or another and you need to get higher prices and you've got a lot of strong companies that don't want to quit, that's an interesting equation.

Charles Thomas Munger
Executive Vice Chairman

You think the movies are tough, try to invest in a New York show on a conventional stage. There, they think it's a breach of faith in that business to let the -- first, they [indiscernible] up the money. You never get any money back. Yes.

Warren E. Buffett
Chairman, CEO & President

Yes. Well, Charlie saw a lot of that, actually.

Charles Thomas Munger
Executive Vice Chairman

Yes. I don't like those businesses.

Warren E. Buffett
Chairman, CEO & President

Tell them what happened on Cleopatra, Charlie. It's a business that everybody's tempted. They love the idea of going in and they get a certain amount of [side gig] income, but...

Charles Thomas Munger

Executive Vice Chairman

I never own any resources either.

Warren E. Buffett
Chairman, CEO & President

But like, my father-in-law and I used to talk about claiming [indiscernible] at the [indiscernible], but we never quite got around to it. And we had a lot of -- [quite the track] together. Okay. Section 6.

Unknown Attendee

My name is Hanna Hayes, and I'm a high schooler from Iowa.

You said earlier today that transitioning to renewable energy has the people and capital to support it. So with enough investment in renewables, the development of energy storage technology to soon meet Iowa's energy needs and support from the government's system through Inflation Reduction Act funding. Why hasn't Berkshire Hathaway Energy truly invested in the future by accelerating retirement plans for the coal plants, which have high operating costs and are currently Iowa's biggest carbon polluter and will continue to be until they're finally retired in 2049, which is too late to be curbing emissions according to the IPCC?

Warren E. Buffett
Chairman, CEO & President

Yes. It's very interesting. We -- in Iowa, we have actually produced more wind energy than was used. The total amount of energy used by our customers. But it's not -- it's not producible 24 hours a day necessarily, so the -- there's problems. And incidentally, in Iowa, a significant majority of counties welcome us when we come around and want to put and win and some don't want it. I mean, it is a -- there's not my backyard someplace. There's other places where they load up money they get from a small polo ground and people that, like, the taxes are paid.

But I would say that if there's one state in the union that stands out in the development, it's Iowa. But what's also interesting in Iowa is that we have one other major company. There's always loads of little co-ops and all kinds of things that sell electricity. But we have one major competitor, and our prices are significantly lower. And as a matter of fact, we are now in the Omaha Public Power District and 3 miles or 4 miles away, we're selling electricity in Iowa.

And we are selling it cheaper even though Public Power was invented in Nebraska and has been a -- I think it's George Norris did it back in the 1930s? And it's -- Nebraska has resisted, to some extent, wind power more than Iowa but, like I say, our competitor or [indiscernible] hasn't really pursued it the way we have.

But I would say that our record in wind and solar has not been topped by any utility in the United States. And of course, it's been aided by the fact that most utilities pay out 70% or 80% of earnings and dividends. And we haven't taken a common dividend out of a little tiny preferred. We haven't taken a common dividend -- for 20 years, we've reinvested, I don't know how many billion. That's the reason why the earnings have gone from $200 million to $4 billion, but we're not earning a higher rate of return on capital than we were when we started. We just put way more capital into the business as we want to run and keep reinvesting the capital.

So I wish Greg were to tell you more details about it, but I would say that we put up -- we really put a Berkshire Hathaway Energy's record against any utility in the United States.

Charlie, you watched it.

Charles Thomas Munger
Executive Vice Chairman

Well, I have and I'm not, personally, at all sure how bad the global warming is going to be. I think -- I don't think anybody knows for sure whether the seas are going to rise 2 inches or 20 feet, and so I think there's a lot of false claims here in the world where much is not known.

Warren E. Buffett
Chairman, CEO & President

Yes. Wyoming, there is a lot of wind in Wyoming, and we are building transmission line that extend out through the West. But -- it was World War II and they told us to do it and somebody -- we had a czar in Washington, I could say, just get it done. Like they said to Henry Kaiser on building ships, I can't believe how far ahead we would be down from where we are.

But we've got the money. We've got the know-how. And we do spend about -- this year, our depreciation in our utility company is on the order of $4 billion. And we spend maybe $3 billion additional, so maybe we spend $7 billion. And there are very few companies in the utility industry that are spending that percentage of their depreciation. But we'd love to be spending more, but there are people all over the -- they don't want the pipeline to go through there. They don't want to -- whatever it may be, and that is the problem of a democracy.

And even, as I mentioned within Iowa, you've got a great many counties that majority -- a great majority of the counties, I think, welcome the wind power and you've got some counties that don't like it. And we're obviously going to work with the ones that want to work with us. We do not have the ability to go in and tell anybody what to do on that. And there's a public utility commission in every state that basically governs what we earn on, what we do, and that's the way the industry is developed. And that's not bad unless you get into things that, in effect, extend their part of a country-wide system rather than a statewide system.

Charles Thomas Munger
Executive Vice Chairman

I think also that even if we weren't worried about global warming, it would make sense to shift to renewables to conserve our hydrocarbons. There are certain things hydrocarbons can do that nothing else can do. And there are only so much of them there, why not be cautious in conserving them?

Warren E. Buffett
Chairman, CEO & President

And the cost, they've got so much more efficient, too. I mean the winds. I mean if you look at what we're doing now, those towers are more efficient. And -- but there's a lot of people that are talking that -- they don't mind things that can't be done and then there's...

Charles Thomas Munger
Executive Vice Chairman

There's a lot of nonsense in this field. If you like nonsense, this is the field for you.

Warren E. Buffett
Chairman, CEO & President

But we're in the field, so.

Charles Thomas Munger
Executive Vice Chairman

I know, I know.

Warren E. Buffett
Chairman, CEO & President

Okay. Becky.

Rebecca Quick

This is a question from Manuel Richardson. The Wall Street Journal reported in March that oil producers are producing less oil and may have reached their peak in the Permian Basin. Given the major positions of both Occidental Petroleum and Chevron in the Permian,-- would you please explain the rationale for Berkshire's significant holdings of both those companies considering that future outlook for oil there?

Warren E. Buffett
Chairman, CEO & President

Well, there's no question. It's really interesting about oil, and Charlie knows way more about oil than I do. But when did you buy that royalty in Bakersfield or wherever it is? But that was before I met you, right?

Charles Thomas Munger
Executive Vice Chairman

Yes. No, it wasn't before. It was -- but it was -- yes, it was. It's just before.

Warren E. Buffett
Chairman, CEO & President

Right.

Charles Thomas Munger
Executive Vice Chairman

And that got me early -- they still paid me $70,000 a year.

Warren E. Buffett
Chairman, CEO & President

What did you pay for them?

Charles Thomas Munger
Executive Vice Chairman

$1,000.

Warren E. Buffett
Chairman, CEO & President

Yes. Yes. Now that's the opposite of the Permian. My dad bought $1,000 or $1,500 worth of royalties before he died in 1964. He left them with my mother. My mother left them to her 2 daughters. And my older sister died, my younger sister's here today, and she gets these checks every month, and she knows about all these different fields and what they're producing. And that's the reality of half of the oil production. There's something around that in the United States. And then the other half is shale. And if you've gone to the movies and ever watched oil, you've never watched the things that are pumping Charlie's royalties in California. You see these gushers of oil.

Well, in the Permian, it should sink in on you. In the first day, the first day, you bring in a well. It may be 12,000 barrels to maybe 15,000 barrels. And it's dangerous that Occidental had once come into, I think, 19,000 barrels or something like that. One day. And in a year, 1.5 years, it becomes practically nothing. It's just -- it's a different business in effect.

In the United States, it's interesting. We use whatever we use, maybe 11 million or a fraction. Well, we produce 11 million, a fraction of million barrels of oil equivalent a day. But if shales stopped, I mean it would drop to 6 million very fast. But just imagine, taking 5 million barrels a day out of the production in the world, and then we're also taking down our strategic petroleum reserve. Strategic petroleum reserve's the ultimate oilfield. You don't have to drill. It's just -- we've got -- it was supposed to be strategic, but it gets involved in politics.

So there's -- once you buy the oil business, you [indiscernible] all different kinds of businesses basically. And we like Occidental's position in the Permian, and we wouldn't like that position. Well, they got the minus -- 1 day, they got the minus $30 a barrel. That was crazy, of course. But if oil sells it at X and you do very well, and it was also the half of X, your costs are the same and it doesn't change the production and it doesn't work as well. But it also brings down the oil production of the United States very fast.

So we don't know what oil prices will be, but we do very much like the Occidental, position they have. And that's why we financed them a few years ago, and it looked like it was a terrible mistake when the oil market just totally collapsed and then they changed around. And we bought a lot of the common stock. In the last few months, they've reduced our preferred, which we don't like obviously. We'd be disappointed in them if they didn't reduce it, it's intelligent from their standpoint. So we've taken, of the $10 billion preferred we've gotten, maybe $400 million or $500 million of it. Retired at [101%] at par.

But Vicki Hollub, is a -- she's an extraordinary manager of Occidental. Her first job was at the city service. That was the first stock I bought in 1942. She knows what happens beneath the surface. I know the math of it, but I wouldn't have the faintest idea what to do if I was in an oil field. I mean I don't -- I can dig 2 feet down. I can't -- in my backyard, and I can -- that's my understanding of subsoil in the world. I can't picture the field that Charlie has been collecting that monthly check, from 50-plus year, 60. Well, 60 years roughly. Or my sister is getting at various fields where they just keep pumping and pumping and pumping. And we, in the United States, we're lucky to have the ability to produce the kind of oil we've got from shale, but it is not a long-term source like you might think by watching movies about oil or something of the sort.

Charlie, do you have anything to...

Charles Thomas Munger
Executive Vice Chairman

Yes, it really dies fast, those shale wells. If you like quick death in Euro wells, then we have them for you.

Warren E. Buffett
Chairman, CEO & President

But Occidental, they're doing a lot of good things.

Charles Thomas Munger
Executive Vice Chairman

Yes. They do a lot of new wells and they're doing it on a profit, but it's a different kind of oil...

Warren E. Buffett
Chairman, CEO & President

It's just different. Yes. yes. And that's true of almost half of the oil produced in the United States. And there's tons...

Charles Thomas Munger
Executive Vice Chairman

There's tons of oil down there that nobody knows how to produce, and they've been working at it for like 50 years. But they worked at the existing shale production for about 50 years before they figured it out, and it was weirdly complicated when they finally were able to do it. There's only 1 type of sand that works.

Warren E. Buffett
Chairman, CEO & President

Can you imagine a horizontal pipe, maybe 1.5 miles or something? It's just so different than what you think about.

Charles Thomas Munger
Executive Vice Chairman

It goes lateral in for 3 miles, 2 miles down. How the hell do you drill 2 or 3 miles lateral when you're already 2 or 3 miles under the earth? They have mastered a lot of very tricky technologies that we're able to get the oil out of these wells at all.

Warren E. Buffett
Chairman, CEO & President

And we love the position with Occidental and we love having Vicki run it. And they've been...

Charles Thomas Munger
Executive Vice Chairman

And there's a lot more oil down there, if anybody can figure out another magic trick. That's all we need, is another magic trick.

Warren E. Buffett
Chairman, CEO & President

But Occidental has some other things, too.

Charles Thomas Munger
Executive Vice Chairman

Yes, yes.

Warren E. Buffett
Chairman, CEO & President

But the price of oil still is incredibly important in terms of the economics of short-lived oil. I mean, no question about that.

Charles Thomas Munger
Executive Vice Chairman

All of it's...

Warren E. Buffett
Chairman, CEO & President

And we will incidentally -- there's speculation about us buying control. We're not going to buy control. We don't want to -- we've got the right management. We wouldn't know what to do with it. Charlie would might know what to do in an oil field.

Charles Thomas Munger
Executive Vice Chairman

[indiscernible] you're buying coal. It will be like going out and seeking what -- acquire cancer or something. You can't even borrow to expand a coal mine now. It's really -- it got very unfashionable.

Warren E. Buffett
Chairman, CEO & President

Yes. And we think, frankly, some of the things that are ridiculous. And on both sides, in both extremes, I mean just -- I mean, you're dealing with physics, you're dealing with -- it's politicalization of positions -- or something that's enormously important in terms of energy. It's just lends itself to [indiscernible] and fundraisers and advisory organizations and everybody inside. And we will make rational decisions, and we do not think it's un-American to be producing oil.

Charles Thomas Munger
Executive Vice Chairman

And there is no oil basin in the United States that compares to the Permian in terms of [province].

Warren E. Buffett
Chairman, CEO & President

Yes, we were lucky. We did know it was there until not that many years ago.

Charles Thomas Munger
Executive Vice Chairman

Yes. It sort of had been used up. And they always know the shale oil was there, but they thought it was going to stay unrecoverable forever.

Warren E. Buffett
Chairman, CEO & President

The second or third stock I bought was Texas Pacific Land Trust, and they own 3 million acres down there and -- that were raising revenues of $10,000 a year or something like that. They were sitting on this incredible amount of oil and basically, that company is now actually part of Chevron and went through Texaco and did all kinds of things. And they're still a Texas Pacific Land Trust, but a lot of the property is fee owned by -- the minerals are owned by Chevron, which is some advantage.

But it's, well, it's an interesting subject, I'll put it that way, and we will not be making any offer for control of Occidental, but we love the shares we have. And we may or may not own more in the future, but we certainly have warrants on -- which we got as part of the original deal on a very substantial amount of stock at around $59 a share. And that [once] last a long time. I'm glad we have them.

Okay. Station 7.

Unknown Attendee

My name is Max [Choe], I'm from Toronto, Canada.

I have a question for Charlie regarding a statement you made in the past. You once mentioned that you would prefer to hire someone with IQ of 130 who believes is 120 over someone with IQ of 150 who thinks is 170. I understand that you were referring to Elon Musk. Given the recent success of his ventures such as Tesla, SpaceX and Starlink, I'm curious to know if you still hold the view that Elon Musk overestimate himself?

Charles Thomas Munger
Executive Vice Chairman

Well, yes, I think over -- Elon Musk overestimates himself. But he has -- he is very talented, so he's overestimating somebody who doesn't need to overestimate to be very talented.

Warren E. Buffett
Chairman, CEO & President

There's a Bill Maher program about a week old, maybe 2 weeks old, but he interviews Elon. And Elon does a terrific job. Toe-to-toe with Bill Maher, who -- it's worth watching. And Elon, he's a brilliant, brilliant guy and I would say that he might score over 170. But he -- it's -- he dreams about things and they -- his dreams have got a foundation.

Charles Thomas Munger
Executive Vice Chairman

He would not have achieved what he has in life if he hadn't tried for unreasonably extreme objectives. He likes taking on the impossible job and doing it. We're different. Warren and I are looking for the easy job that we can identify.

Warren E. Buffett
Chairman, CEO & President

Yes. If we can do it playing tic-tac-toe, we'll do it. I mean...

Charles Thomas Munger
Executive Vice Chairman

We have a totally different way of going...

Warren E. Buffett
Chairman, CEO & President

Which is the old way. But we don't want to compete with Elon in a lot of things. I mean....

Charles Thomas Munger
Executive Vice Chairman

We don't want that much failure.

Warren E. Buffett
Chairman, CEO & President

Yes. And it takes over your life in a way that -- it just doesn't fit us. But there going to be -- well, there have been important things done by Elon already. And it requires -- fanaticism isn't the word.

Charles Thomas Munger
Executive Vice Chairman

Yes, it is the word.

Warren E. Buffett
Chairman, CEO & President

It isn't quite the word, but it's a dedication to solving the impossible and every now and then, they'll do it. And -- but it would be torturous to me or Charlie. And I like the way I'm living and I wouldn't enjoy being in -- but he wouldn't enjoy being in my shoes either.

But watch the Bill Maher interview. Okay, Becky.

Rebecca Quick

This question comes from Foster Taylor. At the 2010 Berkshire Annual Meeting, you said the one question that you would ask of the Berkshire CEO would be about the distribution of cash to shareholders as the Berkshire cash pile grows larger and larger. So let me ask that question, do you still feel confident of the future prospects for over $100 billion in cash on hand? Or are we getting closer to cash distributions?

Warren E. Buffett
Chairman, CEO & President

Well, our -- the one thing, Berkshire shares are selling for less than we think they're worth. But that's a pretty -- that could be a pretty big way to just distribute cash.

The -- but we'd rather -- what we really like to do is buy great businesses. If we could buy a company for $50 billion or $75 billion, $100 billion, we could do it. And we can do it, and our word is good. It's difficult with a public company because in effect, if you bid on the company, you make the bid and their shareholders vote months later, and you're giving an option. If we're good for it, another guy has a way to top you or all kinds of things. They can get out of it, you get paid 2% for that or 1% for that. That is not an appropriate price. And on the other hand, Delaware will decide whether they should do it or not, and that's the way the world is. I mean, that's the law.

So it'd be easier to do with a private company, and there aren't very many that are big. On the other hand, there aren't very -- there's nobody else that can quite make a deal like we can under the right circumstances. And there could be a situation where a bunch of very -- a number of very decent companies have got a very uncomfortable borrowing structure and money comes due to them at the exact wrong time, and that's when they pick up a phone as did Tiffany and Harley-Davidson and -- you name it. I mean, a whole bunch of companies in 2008.

That sort of thing will happen again, whether it results in us getting the calls or what the world is exactly at that time. But the one thing we know is that the number of phone calls that you can make at a time like that is very, very limited, and there can be good companies. They don't want to sell the company necessarily, but they may want -- they just may need $5 billion or $10 billion or $20 billion, depending on the company you're talking about. And that can happen. Our own shareholders can be selling the stock too [cheaper] but we'll never do anything to make them sell to [indiscernible] and we'll tell them the truth about what the business is. But if market circumstances result in us being able to buy in $50 billion of our own stock, we'll buy it.

So we'll see what -- we'll see what the world holds, but I don't -- we don't have the opportunities we used to have, but we've got enough and we're making money with the things we have. It isn't killing us to hold $130 billion of bills at 5% plus bond equivalent yields and everybody says, well, yields are going to go down in the future. I don't have the faintest idea what yields [hold] in the future. And the prime rate was 21.5% in 1981 or 1982, and people were worried that it was going to go totally out of spin out their control. And [Bulker] kept it from happening, but if [Bulker] hadn't been in there, who would know what would happen.

But -- so we're running Berkshire so that we'll do okay and maybe we'll do a little bit better than okay. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Okay. Maybe Fine.

Warren E. Buffett
Chairman, CEO & President

Okay, Station 8?

Unknown Attendee

Mr. Buffett and Mr. Munger. My name is Carlos Sanchez, and I'm honored to be here from Guadalajara, Mexico.

Mr. Munger, as a fellow lawyer, I have a question regarding corporate law. Considering your experience and success, if you were to offer guidance to someone Ralph Tortorella when he was at the beginning of his career and before becoming Berkshire Hathaway company's lawyer, what key principles or lessons would you suggest to help him excel in his profession?

Charles Thomas Munger
Executive Vice Chairman

Well, I'm not sure I quite caught all of that, but I don't think I have a lot of advice about how to succeed as a lawyer. I have a son-in-law who describes modern law practice on a big firm. He says, it's like a pie-eating contest where if you win, you get to eat more pie. And I advise you to avoid that kind of offer. Life is too short just do nothing but eat pie.

Warren E. Buffett
Chairman, CEO & President

Yes. Charlie has not practiced law since what, 1964 maybe? Whatever it was. But...

Charles Thomas Munger
Executive Vice Chairman

1962.

Warren E. Buffett
Chairman, CEO & President

'62. And Charlie has given me 4 or 5 pieces of advice that don't really come from his legal background, but because he knows the system so well and really did do quite well at Harvard Law School despite his taunting of teachers and a few things. He has given me 4 or 5 solutions on things that nobody else in the world would have given me, law firm or otherwise. And it's been within us -- almost a nanosecond. And when I described a problem to him, he just gave me the answer that nobody else would have come up with. And I told you one of them last year, so I won't repeat it at this meeting.

But it's -- we've got the best lawyer in the world. And Charlie, if it's something that really matters, and there have been times when I've taken advantage of that. And I -- Charlie didn't want to be a lawyer. He didn't want to sell us time maybe a $20 an hour or something to people he thought were making the wrong decisions and he knew more about than they did. And that just not strike him as a good way to go through life, but I think he's probably right on that. I think he's really gotten to be miserable if we had to keep doing that. It's just no fun, like me giving investment advice to somebody that -- or taking it from somebody. I just wouldn't want to do in life and Charlie figured that out. So we decided to work for ourselves and just work. Been happily ever after.

Charles Thomas Munger
Executive Vice Chairman

We have no complaints.

Warren E. Buffett
Chairman, CEO & President

Yes. None. Okay. We're at Becky.

Rebecca Quick

This question comes from Ryan Harding, and it's about the new 15% corporate minimum tax rate. SEC said its implementation is currently understood. He thinks that as he understands it, to apply over a rolling 3-year periods and to be based on reported earnings.

First, is the inclusion of unrealized gains and losses and reported earnings under the current financial reporting standards contribute to the calculation for corporate minimum tax rate purposes? And could it potentially convert some of those notional deferred taxes into cash taxes even if a rise in the market price of a major holding is only temporary, but rather extreme? And then second, could it reduce the effect of some of the renewable energy tax incentives and others?

Warren E. Buffett
Chairman, CEO & President

Yes. I think the answer on the second part probably is no, but I don't want to say it is for sure because he's asking the same questions I ask Marc Hamburg, who's the smartest guy on combining understanding of business, understanding the tax code, understanding SEC rules and everything else that you'll find in corporate America. And these questions -- the particular question on marketable security, I don't think it's been answered yet. And I think that there are a number of things about the new tax act that were not inactive.

But I would say this, the -- we have said ourselves what we think the proper approach to operating income. We didn't design that because this tax law came along with -- some years back. So we are -- we would think that you wouldn't include capital gains -- unrealized capital gains in. But we've got enough, I think, no matter how things turn out. The 15% tax doesn't bother me in the least, and we can figure ways once we know the rules where we will pay the 15% tax. And we were paying 52% tax as federal income taxes when I bought control of the partnership of Berkshire Hathaway. I mean, the tax rate come down dramatically and the deferred tax that was embodied, for example, in Sanborn Map when I was involved in a system that was allowed under the tax law to avoid that tax, but that was huge tax, 52%.

So we will live with those tax code, and we do not think corporations are overtaxed in the United States. And I think that the conversation about how we lose out to the world and all that, so I think it's really nonsense. But we've got a new law that hasn't yet. The regulations haven't been written on. And when we know what the game is, we will absolutely figure out a way to pay 15% every year and which generally, we've been paying anyway. And as I pointed out, if there were 1,000 corporations in the United States that paid what Berkshire has been paying, nobody else in the United States, no individual, no corporation, whatever pay any income tax, social security tax, gift tax, estate tax, anything else. 1,000, like Berkshire Hathaway would produce the revenue that's being produced by the federal government -- that's being derived into the present tax code from everybody in the United States.

And I don't feel badly about that, and I'd love to get it to what is -- 500 or something or so are done. But I'd like to do it. We can do it at this rate. I'm happy to do it. I think we are privileged to live in the United States. But we also have to control spending and that's something that Congress doesn't quite like to give -- like to do. And they didn't like to do when my dad went to Congress, but they dug in more as the years gone by. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, we covered this subject earlier.

Warren E. Buffett
Chairman, CEO & President

Okay. Station 9. Am I right on this? Yes.

Unknown Shareholder

My name is Avalon Grose, and I am from Los Angeles, California. I am a shareholder, and it's my fourth year coming to the wood stock of capitalism.

Warren E. Buffett
Chairman, CEO & President

We're glad you came.

Unknown Shareholder

Thank you so much for everything, Warren Buffett and Charlie Munger. What is the funniest story that you have never told about each other? And also, what is the hardest part of your business?

Warren E. Buffett
Chairman, CEO & President

I'll answer the second. Second part of your question is that we don't have a hard business. We love our business. Every morning when I get up, I feel good. I don't know what's going to happen that day. I mean nothing will happen, but maybe something will happen. And if nothing else, I'll roll some T-bills or something. But it -- I work with the greatest group of people you can imagine. I mean, we like each other and nobody's after anybody else's job or anything of the sort. It's ideal working conditions and it's 5 minutes from my home or thereabouts, so I've spend my life commuting. I just can't imagine having anything better.

And Charlie has got a lot of funny stories you haven't heard, but we'll see which one he comes up with.

Charles Thomas Munger
Executive Vice Chairman

Well, I think Warren and I are naturally so ridiculous that we don't need very many funny stories. We each do things that are peculiar enough so that we can keep one another amused.

Warren E. Buffett
Chairman, CEO & President

Tell them what you told the lawyer when we were buying Hochschild Kohn.

Charles Thomas Munger
Executive Vice Chairman

I don't remember. You tell them.

Warren E. Buffett
Chairman, CEO & President

Well remember, it was 1966 and we were down in Baltimore buying a department store and we needed a lawyer, and we need a lawyer who was nearby and would do exactly as told. And Charlie came up with a very good lawyer from [indiscernible], I believe. And I don't know whether Charlie remembers the instructions he gave the lawyer or not.

Charles Thomas Munger
Executive Vice Chairman

No, I don't.

Warren E. Buffett
Chairman, CEO & President

Well, Charlie told the lawyer, who we never met before, and he said, well, he just -- he says, treat Warren like -- I was 36 at the time or 35. He said, treat Warren like any other 90-year-old clad. This guy knew exactly what he meant. And we made the deal in a hurry, and then we went to the bank. First National Bank -- I believe it was a Maryland National Bank actually. And there was a following [Cammy Slark] there. Wasn't it, Charlie? And we went to borrow $6 million against a $12 million purchase. And [Cammy] looked at us with bewilderment and he says, "You want to borrow $6 million against [indiscernible] ". And Charlie and I said something to the effect, well, Maryland National was our first call. And if they didn't want to do it, we had another bank we'd go to. Anyway, they lent us the money. But when he said a little [indiscernible], we immediately started thinking maybe this isn't the best deal we've ever seen in our lives. And from that point on, we were trying to figure out how to sell it.

So we've had -- but we -- we had as much fun. Sandy Gottesman was involved with us then, too. And we had as much fun of deals that didn't work in a certain sense as the ones that did work. I mean it -- if you knew you were going to pay golf and you're going to hit a hole-in-one on every hole, you just hit the ball and it went into the holes 300 yards away or 400 yards away, nobody would play golf. I mean part of the fun of the game is the fact that you had [indiscernible] and sometimes you had them get a mountain, sometimes you don't. So we are in a perfect sort of game, and we both enjoy it. We have a lot of fun together, and we don't have to do anything we don't really believe in doing. I mean we are not dictated to by any group and so we get to follow our own. We look at -- get to forge our destiny, and in a sense, Board's the only principle by which we can run the company, and that's a huge luxury in life. And we don't want to be President of any other company in the world or CEO or anything else. We're -- we have to conform to certain things that we really don't want to conform to.

[Offer] description, Charlie?

Charles Thomas Munger
Executive Vice Chairman

Yes, it is. Yes.

Warren E. Buffett
Chairman, CEO & President

Okay, Becky.

Rebecca Quick

This question comes from David Cass, who is a professor at the business school at University of Maryland. He says at last year's annual meeting, Warren mentioned that Berkshire had taken a large stake in

Activision Blizzard as a merger arbitrage play. Since the U.K. regulator has blocked its acquisition by Microsoft, has Berkshire reduced or sold its stake?

Warren E. Buffett
Chairman, CEO & President

Well, I think in terms of what we do with stocks, we don't give information except when required, which isn't the [13] for whatever we filed. And there are certain things you can actually figure out by looking at our 10 -- yes, 10-Q, which we filed this morning, which you have to look pretty hard.

But I would say this. It's -- I think Microsoft has been remarkably, what's the word, willing to cooperate with governing bodies. And I mean, they want to do the deal and they met them. The opposition it seems to me more than halfway, but it doesn't mean that it gets done if a given country, in this case, the U.K., wants to block it, they're in a better position to block it than the United States. But just the way the world works, and that doesn't get solved by offering more money.

So it -- I don't know how it turns out. But if it doesn't go through, I don't think it's through any short coming by either Microsoft or Activision. But not everything that should happen does happen, and well, we ran into it when we bought -- made the deal with Dominion Energy 18 months ago, and they let us buy a good bit of what we wanted to buy. And then the government in effect said, you can't buy something else, which I think we would have done a better job with than anybody else did in which the states involved, they're not object to it, which the customers didn't object to it.

But you don't -- you don't take on the United States government, and you try and figure out things that you won't have a problem with. And I think -- in that case, the U.S. government made a mistake. I think the British government is making a mistake in this case. But that's life in the big cities, sure I would say. And what we do will depend on a lot of things. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, I think what we do -- yes. You catch that one off beautifully.

Warren E. Buffett
Chairman, CEO & President

Okay. Station 10.

Unknown Attendee

My name is Anderson Fuller, and I'm from Avemport, Nova Scotia in Canada. And before I ask my question, I just want to thank you for all you've done to give us insight in your minds as investors.

So for me, the most compelling takeaway from Berkshire is your guys' emphasis on and successful use of properly-aligned incentives. In my view, owning and leading a business has 2 central benefits. First, you directly benefit as the company goes through your equity in it, and second, you have autonomy. Incentives for employees are a bit easier to understand such as offering benefits, fair pay and creating a strong culture, but I've always struggled to understand them at the highest level. Even though you say Berkshire gives its managers significant flexibility, it must be less than what they had when they were independent. Additionally, you would think passion and willingness to sell would be inversely correlated. So how exactly does Berkshire bridges gap and incentivize owners of its subsidiaries to give up these benefits to Berkshire?

Warren E. Buffett
Chairman, CEO & President

Well, what we really hope to find is, managers who love their business but don't like a lot of what comes with it as a public company. I mean if they have to spend a lot of time listening to people, tell them what to do about this or that, and they can't afford to irritate them or they have to go along with their trade association because -- whatever they may call it, because you don't want to look like a free rider. And there's all kinds of things, compromises that people have to make in most jobs. And Charlie and I solve that problem.

I had 5 bosses in my life, and I liked all 5 of them, and 2 of them were just huge factors in making my life better. But I like all 5 of them. A couple of them were some people here. JCPenney, Cooper Smith, I work at $0.75 an hour. I love -- I love working at Penney's. Well, I didn't love working at Penney's. But working for Cooper Smith and $0.75 an hour. But I had to do what they told me to do, which was to sell men's shirts first then men's clothing then children's clothing, and so on. And I love working for the newspaper and I had a great manager when I was [indiscernible] Nebraska. Got to work for Ben Graham.

I mean everything worked out, but there's nothing like working for yourself. And if you can't own a big company, working at Berkshire Hathaway, running a company is the closest thing you will get. You don't have to spend time courting analysts who you probably have contempt for, in many cases. You don't have to spend time with banks getting money and particularly in terrible times. There's all kinds of -- you get a lot in the way of freedom that I would think would be meaningful to me. And it might be better if you own the whole place yourself, but maybe you got siblings who wanted out, maybe there's a million reasons why you may not be able to achieve that unless you sell to Berkshire. And that's easier probably if they have a family business where people want to go in different directions than it is with a public company. There's still possibilities there.

So that's why I think if I owned a public company and it was a great many billions of dollars, and Berkshire Hathaway wanted to buy it and the shareholders were willing to vote it, I would. Consider it the way I would feel about life. But one thing, I wouldn't want to retire at 65. I'd want to keep working. And we just -- there are reasons to sell to Berkshire which Charlie and I, in certain positions, if we were on the other side, would take the deal. And -- but it isn't for everybody, right?

Charles Thomas Munger
Executive Vice Chairman

I think we have a pretty good one. We've been very lucky. I don't know. It seems to be that most of the people are going to end up the way we did. They almost already know how to do it.

Warren E. Buffett
Chairman, CEO & President

For the most important purchase in retrospect that we may have made, it was National Indemnity because specifically, what it would have led to. And Jack Ringwalt all controls the company. And I knew him, and liked him, and he knew me. And once a year, he'd get irritated when the [indiscernible] department for insurance or somebody would come around, and said they always came around when the [indiscernible] racetrack was open, so they can -- I mean, he had all these stories of why it was a pain the neck to be regulated. And I -- and I told Charlie and I do next time Jack is in that mood where he's ready to sell this because he's tired of rolling around with all these guys, be sure and find them. And so Charlie called me one day, and he says, Jack is in the heat, and I said, bring him over, and we made a deal. Well, that's why Jack sold and he was happy after he made the deal. I was happy after we made the deal. So there was about the control of the business, but just decided these people didn't seem to bother them as much once they were my problem and not his.

You just can't tell when lightning will strike. And that didn't do magnificent things for us initially, but just look at what it led to. And then -- so you never -- if you knew how we're going to -- again, if you know how you're going to show all 18 holes, it wouldn't be any fun playing, you wouldn't get it on the first tee. I mean it's the -- it's the uncertainty, the fun of playing the game, the opponents, all kinds of things that make a game interesting. And I think Charlie and I are in the most interesting game in the world.

Okay. Becky?

Rebecca Quick

Here's a question from Simon Withers in Perth in Western Australia.

It's been a long time since we've heard about See's Candies and NetJets. Could you please give us an update on See's performance and when you project it will run out of places to open stores in the United States? And could you also give us an overview of how NetJets has performed since its acquisition and whether it's achieved the potential you saw at the time of that acquisition?

Warren E. Buffett
Chairman, CEO & President

Well, with See's, it hasn't been a question of opening stores. We found out that we -- we've tried about -- we had this wonderful brand that doesn't travel. The mystique, the actual product, the feelings people have about some things, as we said before, I mean sometimes it's limited to [indiscernible], Dr. Pepper sales at a huge rate in Dallas Fort Worth and maybe 10x the percentage per capita maybe that it has in Detroit or Boston. And you say, well, how can that be with the product has been around for a century and people travel and have national advertising? And I'm not sure, but I keep learning more as I watch different brands.

And Charlie and I, our economics were so good in California that we tried to, in many cases, the same experiment over and over again. Doesn't cost much to experiment. We've tried everything in the world to cause a brand to travel. And we always think we were right for the first week and then we find out that the magic -- we can beat any other candy store pretty much, but there aren't any candy stores more to pick up as the world has changed.

So See's is a 101 years now, it has magic and it has limited magic. In sort of the adjacent west, you can almost describe gravitation almost. And then you get to the east and incidentally, in the East, people preferred dark chocolate to milk chocolate. In the West, people prefer milk chocolate to dark. The East, they sell [miniatures] and dark -- I mean, there's all kinds of crazy things in the world that consumers do, but you want to keep observing it because you do learn a little. And with Charlie and I, the temptation to keep trying things because the economics were so good if we succeeded. So we tried various things. And of course, every manager wants to try as it comes along because they -- it won't -- it should work, but it doesn't work. So -- but that's what makes it very interesting.

And NetJets, we have really learned how to distinguish, justifiably distinguish a service to people so that if you can, you have to be very well to do to use it. But if you're very well to do, you're -- in effect, you're spending your heir's money. I mean, it's what I told my aunt Alice after she went from teaching to be worth billions and millions of dollars and she came to see me. She never been married. She said, "Can I afford to buy this for a [coat] in 1968 or 1969? "and I said, Alice, you aren't buying it. Your nieces and nephews are buying it because that's who you're leaving your money to. And speaking on behalf of your nieces and nephews, I would say, we want you to buy it. And it's the same way, do your elders want you to fly rather than that gesture? Do you want to leave a little more money to your foundation of your kids? And way to solve that one is to offer your kids a few hours themselves and their attitude can change.

So it's in a class by itself. It's done what Ferrari has done in a different sort of way in cars. Ferrari sells 11,000 cars a year. I mean, maybe 12,000. And they're known throughout the world. And we'll have a Chevy dealership in Boston or something who sell as many cars, but we're not Ferrari. And NetJets has 600 -- I'm not counting Europe, maybe 650. But we're going to buy 100 planes this year, and we won't sell any because we've got a backlog. And we took a NetJet flight over to Tokyo and we arrived in good shape. And we spent a couple of days there and we flew back, and there's just nothing to it.

Now you can say, well, you're getting sort of [indiscernible] in your old age, but money [indiscernible] money will probably be $100 billion or more. And I forgot the flights, you just want me to spend a few bucks on myself. All it has to do is to be better than the last dollars that are spent by various [plans of pieces], which you have plenty of problems finding things to do and make lots of sense.

So NetJets, there isn't a competitor. I mean, we looked at the other day, Wheels Up stock came out of $10 a couple of years ago. It was selling at $0.48 the other day, and they've got 12,600 people. They've given $1 billion, a little over $1 billion on prepaid cards where they've given them money and they get some of ours hours later on. And they don't -- I think there's a good chance that some people are going to be very disappointed later on when they have money to doing NetJets. They know we'll get -- They'll get on the same planes with the same pilots as I am, my family have gone on since before we bought the company, so it's not shaped by -- the decision wasn't shaped by some commercial objective.

A couple of years before, I never heard of NetJets. Frank Rooney mentioned it to me and I bought share immediately, and we bought the company. And every -- well, my kids have to fly commercial sometimes, but they sometimes they get to use ours too, but I've never flown anything else. And why would I? I mean it's the gold center. And nobody will match our fleet. I mean, if you got 600 planes, you've got in a lot more places in the United States than anybody else will have theirs. I think we're the second largest fleet, counters the commercial airliners. And our fleet is growing, like I say, at the rate of 100 planes a year. So it's a marvelous company.

And Adam Johnson has performed -- you just can't believe what he's done with the business. And it was a tough model for a long time, but he's brought it where it is, and we've got -- we should have a wonderful company forever. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, NetJets has been remarkable. You can argue that it's worth as much as any airline now.

Warren E. Buffett
Chairman, CEO & President

It's so different. And Charlie, we had a hard time selling Charlie a NetJets membership. And then we figured the way to get him to buy a membership was to put a coach seat in the [indiscernible]. That really locked him off. I mean, I think he's the only what we sold all the [indiscernible].

Charles Thomas Munger
Executive Vice Chairman

I used to come to the Berkshire annual meetings on coach from Los Angeles. And it was full of rich stockholders, and they would clap when I came into the coach section. I really liked that.

Warren E. Buffett
Chairman, CEO & President

But I got to tell you, we semi-corrupted him. He feels he kind of has to explain it, but he still flies in NetJet, so. And it'd be crazy not to. It's -- your heirs are paying for it. I mean you find me anybody, whose stake came in at less than 0 because what they spend on NetJets, threw them into that position, let me know. But I've never seen a case yet. It won't be the case with the [indiscernible]. And it's the residual bottom beneficiary that's paying for your membership. And it's a little hard to get used to pay that much money though. When you live like Charlie and I have most of our lives.

Okay. We will go to Section 11.

Unknown Attendee

Hello. My name is [Humphrey Lee]. I'm from Charlottesville, Virginia. First, I wanted to ask -- I wanted to add my thanks to you and Mr. Munger and Mr. Buffett and all of Berkshire for throwing this grand event each year. Looking at the global trends, it increasingly does seem that 0 emission vehicles may have finally reached the cusp of mass adoption. Do you see any opportunities in this space, either in specific vehicle manufacturers or in related technologies?

Warren E. Buffett
Chairman, CEO & President

Well, I would say that Charlie and I felt that the auto industry is just too tough. The Ford Motor Company, I mean, Henry Ford looks like on the world with the model and he brought down the price dramatically. He took up wages dramatically. He was -- he might have been with a different personality or some different views. You've not been elected President in the United States. I mean there's a good book that came out on that recently that told about the story of tells a little about Nebraska in terms of it, but Henry Ford.

And Thomas Edison joining up maybe a year or 2 if you're interested in auto, you ought to read that book, but Henry Ford did that 20 years later, that we're losing money and the guy would have gone in his pocket, I think Henry been was running the Ford Motor Company. It was on its way to the junky when the whiskeys came in and report the second hand the dose as I call them, brought in Textron and my friend [indiscernible] a few people.

But it's just -- I I've read that in the other day, actually, the 1932 Annual Report of General Motors. And it's one of the best annual reports of a [indiscernible] totally honest. Assessment of exactly where they were. They had 19,000 dealers then and population, as I mentioned earlier, it was about 120 million or so. And now with 330 million people, all brands, I'd say a like 18,000 dealers or something like that. It's just a business where you've got a lot of worldwide competitors. They're not going to go away. And they look like -- it looks like there are winners at any given time, but it doesn't get you a permanent place.

Although, as I mentioned, I would say Ferrari is in a special place, but they only sold 11 or 12,000 cars a year. And U.S. last year, I think there were 14 million something. And it's not a business where we find it fascinating to be in. We like our dealership operation. But I don't think I can tell you what the auto industry will look like 5 or 10 years now. I do think that you're right that there's a -- you will see a change in the vehicles, but you won't see anybody that owns the market because they change the vehicle, Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, the electric vehicles coming big time. And that's a very interesting development. At the moment, it's imposing huge capital costs and huge risks. And I don't like huge capital costs and huge risk.

Warren E. Buffett
Chairman, CEO & President

And we're subsidizing in the United States, and we're actually doing it, try putting in a pro labor -- I mean, it is subject to politics like you can't believe, too. But it's going to be with us. We're not going to quit in cars and American public is a love of fair with them. And -- but I think I know where Apple is going to be in 5 or 10 years. And I don't know whether the car companies are going to be in 5 or 10 years. And I may be wrong, but that's we've Charlie and I follow the auto business with intense interest. Charlies firm was the specialist and General Motors on the Pacific Gold Stock Exchange, and that was -- that was a franchise. It wasn't it, Charlie?

Charles Thomas Munger
Executive Vice Chairman

Yes, we get by working very hard you can make a minor or a modern money.

Warren E. Buffett
Chairman, CEO & President

Wasn't minor at the time.

Charles Thomas Munger
Executive Vice Chairman

Wasn't minor at the time even.

Warren E. Buffett
Chairman, CEO & President

Well, that was pretty minor. Okay. Becky?

Rebecca Quick

This question comes from Lindsay Peter Schumacher in Cedar Rapids, Iowa. Does the current size of the Federal Reserve balance sheet concern you? In particular, the result of quantitative easing, the Federal

Reserve expanded its balance sheet out of nothing. The net effect in form of single-entry accounting creating something of value out of nothing other than a series of book entries and wondering what Mr. Munger thinks about this as well.

Warren E. Buffett
Chairman, CEO & President

Well, I don't think the Federal Reserve is the problem. And I think they can't solve the fiscal problem. And I do not worry about the Federal Reserve and I think it's fulfilling the functions or which it was established, I probably would not have been -- only -- they have 2 objectives, and I would not have been one probably that would have changed the inflation objective to 2% a year from 0. I think that -- I think that to tell you people that you're shooting to depreciate your currency at 2% a year, that has a lot of implications, although it feels good to people. A lot of people want a little inflation, but nobody wants a lot of inflation, except somebody's got a lot of debt. And I do not worry about the Federal Reserve balance sheet. I enjoy looking at it, and the numbers are big. I was like big numbers, but -- it is not. It's interesting.

The most -- one of the most interesting figures to me is currency in circulation. I mean it has gone. They were saying cash is trashed back in 2000, '07 and '08 and all that cash is going to disappear. Well, if you look at the Federal Reserve balance sheet, it's gone from $800 billion to 2.2 trillion. And most of that is in $100 bills overwhelmingly. And if you figure it out, I think there's about 51, $100 bills per person, babies everybody in the United States. And I would really like to know where all of that is. I mean no -- nobody is holding euro dollars in South America, Africa or wherever, and the demand for currency now somewhat maybe by several drug dealers activities and all of that. But anybody thinks cash is trash or to look at the look at the Federal Reserve balance sheet. And actually, you can look at how many bills and $2 bills and one onto and all that, and the action has been in $100 bills. I mean it is just astounding with $100 bills spread.

And of course, we don't know where -- I don't know where they are. And I don't think the Fed can know exactly, but they probably make a lot better guess than I could. But I do know what's happened and you can watch it every week and you'll watch currency in circulation probably grow a little bit. And believe me, cash is not trash. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, I don't know where we're headed with all of this. It's been very extreme I think that you could be pretty extreme in fighting depressions and so forth. If you revert it afterwards to a period of something disciplined, but if you missed that some decline. But if you're going to just keep borrowing you're printing money and spending it, I think eventually, it causes bad dribble. And you can see it in Latin America. Latin America, let us currency get all the control all the time. And of course, it lagged the United States and economic achieve them greatly. So I think we pay a price if we if we ever give up our old ways entirely and going to a new world, are we just trying print money to make it easier to get through the year.

Warren E. Buffett
Chairman, CEO & President

We paid a price in World War II. I mean everybody, school kids and everybody else myself included, I'm with -- we bought or regionally called war bonds and defense bonds and savings bonds and all that, but from 1940 to the 1944, '45, you paid out $18.75, you got $25 back and every kid say, savings and Samson all that. But when you got all through, you had 120% of GDP and the national debt instead of 30% or 40%. And we had a lot of inflation subsequently a lot. So the people that really -- that bought those bonds and support the war at a portion of their purchasing power taken away from them. Well, there wasn't anything wrong with that particularly. But when the country gets in the half of doing that, I don't think it's -- I think it's tough to figure out where the breaking point is with society, but I don't think you want to come anywhere close to it.

Charles Thomas Munger
Executive Vice Chairman

And it's also tough to have a mass of people unemployed. That's attention.

Warren E. Buffett
Chairman, CEO & President

Yes. Well, that's why the betas 2 objectives in terms of employment and inflation. And -- but they are not the ones that create the deficits. So far the system has worked pretty well, although like I say, it's been.

Charles Thomas Munger
Executive Vice Chairman

So far the man who's jumped off a tall building. It's a it's the ground.

Warren E. Buffett
Chairman, CEO & President

Yes. Well, but there could be ways we can stop now it's the third floor, the sixth floor, we don't know what Ford is, but we know what the is having it to ground. But the question politically, it's very, very, very tempting to both appropriations and it's not funded both taxes in [Russell] as of the senate finance company. They got a building, they made from now. He said, "Don't take you, don't tax me, tax like or behind the tree, " basically, -- that is the attitude of -- I mean, it's the reality of what is useful in politics. And so far, those countries managed to work very well with a lot of things that could theoretically cause a lot of problems. But it doesn't mean -- it doesn't guarantee us the future on it and being the reserve currency, let's just do a lot of things, but it also creates a lot of consequences if we screw it up. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, we're bidding a subject to death, but it is a problem. I wish we had a solution.

Warren E. Buffett
Chairman, CEO & President

Okay. With that, we'll go to Station 1.

Unknown Attendee

Hello, Mr. Buffett and Mr. Munger. My name is [Cana], I'm an economic student, the university of Nottingham. My question for you today is during the pandemic, we witnessed supply chain shortages, especially from Asia. As a result, companies have chosen with political tensions to move production away should companies make these decisions and should the government support them.

Warren E. Buffett
Chairman, CEO & President

Charlie?

Charles Thomas Munger
Executive Vice Chairman

Well, that's a good question Obviously, it's logical if you're in business and you can make the thing in Mexico way cheaper. It's natural to open a factory in Mexico and in Mexico and get your parts cheaper and a lot of the auto manufacturers have done exactly that. On the other hand, nobody wants to hollow out the whole country. So all the manufacturing jobs or elsewhere, and we're living with a bunch of farmers like english colonies in 1820 or something. And these ideas are of course and in big tension.

We have -- we don't have that much foreign production right, Warren? Yes.

Warren E. Buffett
Chairman, CEO & President

Well, -- but we've lost -- well, originally Berkshire Hathaway is a textile manufacturing lost because the sales became feasible versus the north and of course, then eventually.

Charles Thomas Munger
Executive Vice Chairman

The south got to China.

Warren E. Buffett
Chairman, CEO & President

Sure. and society benefits and some people get killed in that sort of a situation. And a rich society should take care of one way or another. And of people who have worked in our shoe factories but we're working on our textile companies. I mean, if you work in our textile operation in 1964, when we took it over half our workers only spoke portugese. And -- and they weren't getting great wages at all, but now you could do it in themselves, and we were doing to go out of business. And it wasn't the fall of the worker in any way, shape or form. It wasn't the hard fall. We kept trying them compete.

Charles Thomas Munger
Executive Vice Chairman

Well, it was a TV had cheap power down textiles really can yield power.

Warren E. Buffett
Chairman, CEO & President

And air conditioning change everything, but the heat them places were impossible. [indiscernible] lot of things. But then it moves offshore in many ways and -- and net, the country is better off because of it, but at this places a lot of people really can't do something else, and you can't talk about retraining to somebody that's 55 or 60 speaks only portugese really tell them they're going to have a great future, a new bed for mass. So you don't want to be glib about it, and we can afford to take care of those people. And we've got some systems that work reasonably well, but there's a tension between what the person doesn't do anything and all that kind of stuff. So these are not easy problems to solve. But I would say that by and large, we want the whole world of prosper. We do not want to be a world. We don't want the United States to be a country of extraordinary prosperity and out of the rest of the world starving.

No, it isn't going to work, and it particularly is not a working on nuclear world. So our own feeling a lot of main person, but it doesn't -- it is not -- it can be done better. And we've got the resources to do it. I mean the output of this country what can be done with a lot fewer people and doing more specialized things. And of course, it has been the work week in the United States, in my lifetime has dropped dramatically. And people [indiscernible] busy. It will be the human lot to say, how going to get all these things done. But my mother didn't drive free kids any place. So even one to go in place, if you were lucky, we got old enough, you had a bicycle.

The world just keeps looking at everything moving up as becoming sort of a base that leaves them somewhat dissatisfied. And with our prosperity, we can do a lot of things we couldn't do it in 1930 and including taking care of people who got displaced by the fact that somebody else can do that work and improve our lot in life, and we got to be sure that we have the best system that takes care of the people who we got displaced by that. But doing that in play system we have and everything, we'll make a lot of mistakes along the way, but we got to keep moving in that direction.

Charles Thomas Munger
Executive Vice Chairman

And really interesting thing about it is that the Adam Smith was brace that the free market capitalism. Automatically, we've a lot of property in private hands and free trade and all that. Automatically, creates GDP or have out of the growth and helps everybody, including the people at the bottom helps everybody a lot. But inherent in the process there's a lot of pain in that free market capitalism, for instance, to the Portuguese workers and a textile company in New Bedard. And nobody's ever figured out how to take all the pain out of it. We do have government safety nets to take some of the pain out we make those safety nets a little bigger as time goes by.

But apart from that, if you try and take all the pan out, you'll also take all our gains out of. You won't have a growing GDP per capita. You'll have an economy like Russia, which has been characterized as saying they pretend to pay us, and we pretend to work.

Warren E. Buffett
Chairman, CEO & President

The other systems haven't worked better, but it also produces more and more disparities in wealth and people but do nothing but get assets under management without actually performing anything extra, make fortunes. I mean -- it's the job of government to keep the best aspects of capitalism. Well, I'm not causing people that only speak Portuguese to suffer in the process. I mean the 2 aren't compatible politically over time. And we stumbled along making progress on things like social security and all that and we are a lot better often we are when I was born.

Charles Thomas Munger
Executive Vice Chairman

Net the United States has done a very good job of this tension between capitalistic growth and growing safe social net. We can be pretty proud of our country looking backwards.

Warren E. Buffett
Chairman, CEO & President

May be why we have 25% of the world's GDP starting with 0.5% of the population in a few centuries. I mean it's just -- it's a miracle. It wasn't because we were smarter. You got to say there must be something to the system. It's worked pretty well even though it's produced a civil war and all kinds of things. And women not getting a shot at anything, even after they passed the 19th amendment -- it's -- it's a work in progress. I think actually, there's been progress, but it's mankind's nature to see the things wrong with it if you.

Charles Thomas Munger
Executive Vice Chairman

Or it's [indiscernible] to take the progress as a rate, not something going to be earned or strive for, but something that should automatically just flow in over the transom. And that attitude is poison. It doesn't do anybody any good.

Warren E. Buffett
Chairman, CEO & President

Okay. Now I ask is an easy question, Becky?

Rebecca Quick

This question comes from Doug Decile. Since the accounting rules changed requiring Berkshire to report the change in fair value of its equity investments through the income statement, Mr. Buffett has repeatedly told shareholders to ignore those changes as they're not reflective of the long-term returns that those investments will produce. Recently, Mr. Buffett has argued that hold the maturity accounting used by the banks to avoid reflecting the changes in fair value of bank investment portfolios in the income statement and the shareholder equity account to a disservice to its various stakeholders. Can Mr. Buffett elaborate on why he views mark-to-market accounting differently for banks in comparison to Berkshire?

Warren E. Buffett
Chairman, CEO & President

I believe in both cases in doing it on the balance sheet and not in the income statement. And -- it's a very tough problem. The auditor space is that the -- obviously, the income statement feeds into the balance sheet. But the balance sheet tells you whether deposits could be paid, it tells you a lot of things. And we show it on our balance sheet. We believe in showing market values on our balance sheet. We just don't believe in running it for the income account.

And in getting there, we would put it in other comprehensive income like it was for a long time. So I sympathize to some extent with the -- our extent with the audit group, but they have to really decide whether they want the balance sheet to represent values, except that doesn't reflect them on the upside if we buy a [Cascadian] is worth way more money. So it's conservative in that sense. But or whether they want to have a and income account that becomes meaningful to people because it really changes every 5 seconds. I mean, what we're -- the market is closed today, but -- we have days -- well, I guess Apple was up, what, 7 or 8 points, some Friday, I mean that's $7 billion. I mean that's a crazy income account. It is a reflection of where we stand at that point. And of course, if you're a bank, where you're putting out money [indiscernible] and things that people sort of mortgages, I mean, primarily, they're a terrible instrument for a bank to own, but a great instrument for a consumer to buy and build in the whole society now in a way that was entirely different than the past.

You've got to pay attention to whether they've gotten out of whack in terms of what the value of what they own and what can be demanded out tomorrow morning. And if we had all of our money that could be the matter from us tomorrow morning, we'd have to behave a lot differently than Berkshire does. So I don't -- I really think the way to do it is the way you recommend doing, which is exactly what was being done to a few years ago. I recommend the shareholders look at it that way, but we're going to follow the rules, obviously, the SEC, state authorities and everybody require us. But we'll still explain to the shareholders exactly what I would explain to my sister about what really counts at Berkshire. And I think every management actually has an obligation to that. And instead of it, they go in the other direction and give them a lot of figures that are total nonsense. You can imagine some of the EBITDA, I thought was about as bad as you could get, but they kept going earnings before everything, EBE.

And so but that doesn't change what I would tell my sister, who was here in the audience, I hope. As the I should tell us all the shareholders. And we'll consistently do what is legal and we'll consistently say what we think is right. Charlie?

Charles Thomas Munger
Executive Vice Chairman

Yes. We want owners who understand what they own. Now that doesn't mean they have to understand the detail of it. But that's why we have people that have been around 50 or 60 years. That doesn't mean that they read the 10-Qs or anything like that, but they feel word. Telling up to like load next door to us.

Yes, I don't know what the accountants were thinking when they read that change. It strikes me as bunkers. Absolutely bunkers. I don't think anyone who understands how business is really operated and should be operated by owning managers would have made that accounting change. The accounts did it just because they had a wild moment.

Warren E. Buffett
Chairman, CEO & President

25 years ago, I suggested the audit provision that they just -- that the audit committee asked auditors for questions. And the shareholders would know a lot more about the company if those questions were asked, but it wasn't good for the auditors to be asked those questions because it might increase their liability if they if they answered them, the client didn't want them to answer because the manager even didn't want them to.

Charles Thomas Munger
Executive Vice Chairman

No. They want a system where they bottle certain rules, they're safe, and that's understandable. But I don't think the past this rule requiring changes in marketable securities to go through the [amnio] account quarterly. They didn't do that to protect themselves from liability. They just did that for some crazy reason of their own. I get a bunch of people who are holding drawing a lot of pay out of a big complicated system and rising in like so many officers in the army. God knows what they'll do if you put them in a little room by themselves and new accounting standards.

Warren E. Buffett
Chairman, CEO & President

Well, to our auditor, remember that's Charlie talking. But I agree with the 100% -- he's 99, got a wait with more than I can get away with.

Okay. Station 2, but what he said is enormously important. I mean it's just -- you got to have some insights into what the hold really goes on.

Charles Thomas Munger
Executive Vice Chairman

And even if your accountant count.

Warren E. Buffett
Chairman, CEO & President

Yes. Okay. Station 2.

Unknown Attendee

[Dan Dica]. My name is Victoria Rentrop. I am 22 years old and a study in Munich at the CDTM the center of digital technology and management. As your grandchildren, I'm more in my age group. Let me ask you, how do you transfer your wisdom, do grandchildren and asked? How do you need them to investing? Do you see value in investing as a family or individually?

Warren E. Buffett
Chairman, CEO & President

I'm going to let Charlie do the answer -- he's got more...

Charles Thomas Munger
Executive Vice Chairman

I have a grandchildren, but I am quite philosophical about my grandchildren not thinking exactly the way I do. It seems to me that's almost a natural course of life. And I just like my own way and they can observe it as an example, if they want to, if they don't, they can try some other way. I don't like it when they try some other way. I have to pretend that I like some of the boyfriends and girlfriends I don't like. But I just struggle through like everybody else. And usually, I just bite my tongue and keep silent. That's my way of handling it.

Warren E. Buffett
Chairman, CEO & President

Well, I would say that I think that in my case, my 3 children have grown a lot smarter in the last 30 years, and I think I've grown smarter.

Charles Thomas Munger
Executive Vice Chairman

And I know, but you needed a lot help.

Warren E. Buffett
Chairman, CEO & President

That is for sure. I would only knowledge that -- that's why I had the room to go. I mean I had a plenty of room for a group but.

Charles Thomas Munger
Executive Vice Chairman

All have a lot to grow. I would I work the year for U.S. Steel, which was in their fabrication department in Los Angeles, a big operation. The thing was utterly due and 3 years later, it went back to greenfield. The whole thing was raised to the ground. I did not see it coming. Now I would -- to be that ignorant and that as I was at that age, it was a sin and my professors, by and large, were even more ignorant than I was. We just know what you had observed the basic economics of business in a scientific way at all when I was young.

Warren E. Buffett
Chairman, CEO & President

Well, if we're getting into confession to, I have to tell you it's 3:30, so we don't want to keep going on. Who knows what will be saying in another half hour. So -- so I thank you all very much for coming. At 4:30, we will have the shareholders meeting here. And the -- we're continuing to sell goods for another 20 or 25 minutes. We've already broken all kinds of records, but let's really make it tougher comparisons next year. And again, I thank you for coming -- come next year, and maybe we'll figure out the answer to more of these questions.

Michael Santoli

And that concludes the afternoon session of this year's Berkshire Hathaway meeting, Warren Buffett and Charlie Munger finishing a second 2.5-hour session, talking to shareholders, answering their questions. We'll come back to our special coverage of the Berkshire Annual Meeting, Mike Santoli, Becky will be back with us shortly. When Warren and Charlie came back from lunch, the signs at the front of their table showed the audience they were ready to talk about the banking crisis, Buffett Science said available for sale. Charlie Science said, held to maturity, but it seemed to lay the blame for the problems at the feet of everyone from the bankers to the government and the regulators, listen to what he said.

Warren E. Buffett
Chairman, CEO & President

The messaging has been very poor, it's been poor by the politicians who sometimes have an interest in having a poor. It's been poor by the agencies. And I would say it's been for by the press. I mean you shouldn't have so many people that misunderstand the fact that although there may be a debt ceiling it's going to get changed. Although there's a $250,000 limit on FDIC to the FDIC in the U.S. government and American Public have no interest in having a bank fail to have deposits actually lost by people.

Michael Santoli

We're also took a shot at First Republic, its management team and how they ran their business.

Warren E. Buffett
Chairman, CEO & President

You'll have to have a punishment for the people that do the wrong thing. And if you take First Republic, for example, you could look at their 10-K, and you could see that they were offering nongovernment guaranteed mortgages to in jumbo amounts at fixed rates, sometimes for 10 years before they change the floating. And that's a crazy proposition. If it's to the advantage of the bank, they've got to -- they get the guy coming in and says, I'll finance at 1.5%, then 1%. And if it's a managed the other way, all keeps it out 10 years. You don't give options like that, but -- but that's what First Republic was doing, it was a plain site. And the world ignored a tell it blew up.

Michael Santoli

Let's bring back in cnbc.com Hughson. And Hugh, we were talking before launch about the lack of commentary regarding the banking crisis, here, they're pretty blunt. In fact, it was pretty predictable. I thought they would come down on mismanagement of certain institutions. But really, the takeaway is that depositors should feel safe, if they don't, it's because the message has been garbled. And I suppose that means they're not in any real hurry to participate as investors necessarily in this area.

Unknown Attendee

Yes. So I mean I think the situation is there's an implicit guarantee. At least that's what Warren Buffett seems to be saying, and it should be made explicit apparently. And when we talked about the [indiscernible] of the last week or so, -- 2 of the suggestions were either a temporary ban on short sales or perhaps a radical expansion of FDIC coverage. And so you really addressed one of those 2 things that could perhaps arrest the declines in regional bank stocks.

I mean, a sailing everybody from regulators to win the media to politicians make sure a pretty classic Warren Buffett rent so we appreciate that. But I do think he really gets to the core of the issue here, which is there is the possibility of future bank runs. He is in many different ways and several different times says, "I don't know how this story plays out. " If we're in Buffett with a 6-decade history in investing very profitably in banks is saying, I'm not getting involved at this point. I can. I have a $130 billion cash pile, which we could deploy in the future if the situation requires but they haven't done so yet. And by the way, we've sold banks, both recently and in the long term since 2020, what does that tell you? I mean it tells you doesn't really have a whole lot of confidence in the sector at the moment. And I think that's the biggest takeaway. That's the implicit takeaway from conversation.

Michael Santoli

Yes. On the other hand, Hugh, the way -- you could also look at it from the other angle, which is he seems not to believe this is systemic. So it almost underscores that point of view that says, it's somewhat idiosyncratic. There's a handful of badly run institutions that got caught the wrong way on this. And if depositors feel as if their money is safe, there's no need that it has to spill over, and we should get used to the idea of isolated bank failures.

Unknown Attendee

Well, I'll push back a little bit with his comments that you can have a lit match turn into a configuration. You can have the fire go away. So I do think in his position is ultimately, this situation is a situation we don't know how it plays out, and that's concerning to me.

Michael Santoli

Yes. Fair point, Hugh. Appreciate it. Thanks a lot for breaking it down, and we also want to welcome Becky back.

Rebecca Quick

Mike. Thank you. I didn't hear everything you guys were talking about, but I think I got on the bank front. One of the things we've talked about here is how many different interesting people you can run into here. We've gotten used to running into leaders of business, but you never know who can run into an Omaha and in fact, right now, we've got Oscar-nominated actors [Glenn Close]. She happens to be a long-time attendee of the Berkshire Hathaway Annual Meeting. She's played a lot of famous roles, all kinds of things that are out there, everything we've ever seen from Alex Forest and the original fatal attraction, Normand Desmond on stage and sense at Boulevard, which was my personal favorite. I have to say I love that.

But [Glenn Close] joins us right now. [Glenn], thank you for joining us.

Unknown Attendee

Thank you. I've played a lawyer, but I'm never say an investor.

Rebecca Quick

It's not real life. You've been coming here for what, almost a decade?

Unknown Attendee

Yes, I think so. I think the first time I came was about 10 years ago.

Rebecca Quick

Why?

Unknown Attendee

I think I was with somebody who -- yes, was a friend of Warren and she invited me to come. And so I was able to meet Warren and Charlie, the very first time I was here and go to some dinners at there. And I think they're just -- they're a phenomenon. I mean it's truly phenomenal what goes on here. And as an actor, they were the best standup you go ever. They have a wonderful dynamic, and this great insight into what's going on in the country in the world financially and otherwise.

Rebecca Quick

What did you think of what you heard today? What kind of jumped out at you as things that you're going to take on?

Unknown Attendee

Well, number one, I think the thing that always impresses me coming here is the respect that they have for their investors. And when you start at 6 or 6:30 in the morning and people are streaming into the building. And there are people from all over of this country, all over Nebraska, I mean, yes, Nebraska and they're just ordinary people. And I think they're made to feel that they're part of something important. And you don't ever feel that they're talking down to anyone. but they honestly want to try to explain as best they can, their vision, their reasons for what they do. And it's absolutely fascinating.

And Warren's simplicity I think he's a simple man with a mind like a computer. I mean he is -- I mean, I think one of the great minds is that somebody who was the Oracle of Omaha and somebody that we really love as a human being as well as a businessman.

Rebecca Quick

I always sit here, and I think that they take the most things and make them sound so easy. And then I walk out and maybe a few weeks later, I think we're going to wait a second. It's not as easy as I thought it was. Have you ever changed anything about how you invest or what you put your money in based on what you've heard here? I wish I had the kind of money to really seriously invest.

Unknown Attendee

Well, actually, that's not true. I'm very conservative and what I have, I would rather hang on to something that -- and rather than -- well, you're talking the wrong person. But I mean I'm a yankee, we're in for the long haul.

Michael Santoli

Yes. I mean, and they, of course, are very satisfied at the moment to have a lot of cash, have a cushion and earn a little bit on it now versus what they could do a little while ago. So I think a lot of individuals are in that situation. So did you take anything from Warren's comments about media business, the entertainment business and how it's not all that great and predictable and maybe not too clear on its future.

Unknown Attendee

That's the conversation now. I mean we're in the middle of a right of strike. As an actor, I feel like we're in the World West. All the rules are changing, and you want to protect yourself, you want to protect your craft. And I feel very strongly about that. And I think the more we look at screens, the more we get away from looking into 2 eyes and really feeling each other's humanity. And the more you choose somebody from just self-made video rather than letting the actor walk into the room. And it's not just about the part, but it's about who they are and how -- where they are in their path. I think that's incredibly important.

Rebecca Quick

You sound like you're on the side of the riders who are right now saying, wait, we want to make sure that we're protected as the world changes and moves towards streaming and that we're still going to get paid for part of this.

Unknown Attendee

Yes. I'm certainly on their side, yes.

Rebecca Quick

Artificial intelligence is roiling all types of industries right now. It's certainly up ending business we work in, lots of other places we've seen it, but what about the business of Hollywood? Is that -- It's right thing...

Unknown Attendee

Well. I've done a number of movies now where you go into a little booth that's 360-degree camera and you're asked to do 30 different expressions. Smile, and then stand like this, and they could totally recreate me. They could have an AI version of me. So last time I called out my lawyer and said, what happened to those images? After what do they do with them? Where they store them?

Rebecca Quick

[indiscernible] paid of it?

Unknown Attendee

Yes. Well, they can't -- supposedly, they can't use it without your permission, but it's still to go like this and like, and then you think I can do that in person. And I hope if you need it enough to go into that file, get me to do it.

Michael Santoli

Well, of course, that's one of the big goals between the writers and the -- in the studios right now, too, is the writers just said, look, promise us, you're not going to just give us a lump of AI-generated script and tell us to fix it and the studios wouldn't commit to it. They just said, we'll meet every year to figure it out.

Unknown Attendee

I think the thing that I find frightening is that we don't even know about our brains before we're letting loose this incredibly powerful technology. And we know what -- that the amount of depression, the amount of mental health issues that are large and alive. Now well with all this, there's just so much we can take in and deal with.

Rebecca Quick

Glenn, I want to thank you for your time today. It's really a pleasure getting this down with you. It's lovely to meet you. Thank you, thank you very much. Good Bye.

Unknown Attendee

Thank you.

Michael Santoli

All right. Buffett and Munger turn their attention to energy this afternoon. Berkshire upped its stake in Occidental to nearly 24% in late March touching off speculation, Berkshire couldn't buy the company outright or above it had just to say about that.

Warren E. Buffett
Chairman, CEO & President

We will not be making any offer for control of [indiscernible], but we love the shares we have, and we may or may not own more in the future, but we certainly have warrants on which we got as part of the original deal on a very substantial amount of stock at around $59 a share. And those ones last a long time. And I'm glad we have them.

Michael Santoli

Yes. And that -- I mean it came as a little bit of a surprise back maybe just in the idea that some folks thought that they were building toward an outright purchase of Occidental, but he also did say he loves their position right now.

Rebecca Quick

The one thing that was interesting he wasn't asked if they were going to buy a position. He offered that it myself. We can only ask the questions that are sent in that are written, there wasn't part of the question he answered anyway [indiscernible].

Michael Santoli

So there was a bit of speculation about that. Well, let's bring in value investor, Tom Russo. He's been a Berkshire shareholder since 1983 with Holdings for his clients and firm now worth more than $1 billion. And Tom, it's great to see you again.

Unknown Attendee

Thank you very much. It's great to hear.

Michael Santoli

What were your kind of big takeaways from the day?

Unknown Attendee

I'm just so delighted to see Warren and Charlie so well. And so with it, and so quick on the answer is and stay on thought it was terrific. So that was one.

Michael Santoli

In terms of any of the investment color that they gave about their positions about what they're holding on to, what they're not that delighted about.

Unknown Attendee

I think what they gave was more a sense of business as usual, especially in the area that's most important to them, which is the deployment of capital. They have to deploy the capital that's coming in as he suggests a sort of 2 million --2 billion and how many days of the month that we had some.

Rebecca Quick

Yes, I think you said almost. I wrote those numbers [indiscernible] to $7 billion that they had attitude between cash and T bills. But through the course of the month of April alone.

Unknown Attendee

And then they talked about what do they get to buy it. They declared $7 billion for NHE. I expect Burlington somewhat close. And then they have Todd's business, where he's investing in a whole new platform for technology, which I suspect that we build an eye towards other parts of the company as well to forecast demand.

Michael Santoli

In the way he characterized Apple as being a better business than any one of their outright.

Unknown Attendee

Stunning -- that's a big statement. And he backs it up with a big position. So you said I think they've already repurchased Simon told me he's going to repurchase $700 billion worth of Apple shares. And they just announced a $90 billion relo.

Rebecca Quick

Apple.

Michael Santoli

Apple share count is down, I mean, tremendously in the last decade.

Unknown Attendee

And so it's really the returning theme, which is deploying capital. And they did so as well with their smaller companies, they worked. And one of the things that Greg has complemented a warrant on his ability to work with the independent companies that sit in these booths out here and derived from them, a willingness to return their capital.

Rebecca Quick

One other things that surprised me was just the idea that they could actually take -- Warren said, I think $75 billion, even $100 billion and acquire a company worth that much money. Now they wouldn't want to let it sitting out there the problem with public companies is you're putting an option on it. So we it out for the. They don't love that.

Unknown Attendee

No, it's the court's opine so they -- it's a cooling off period that's allowed and then they have to live with it. But it's just -- it was the deployment of capital. I had to start going back, you have to love the [Jamie LeCurtis] movie. So you just -- you come for the theater and you also come for friends. I have my son here. My office is here, a group of people agree each other here each year. That's sort of what we see. But it's a terrific forum for. Then finally, swapping ideas.

Michael Santoli

So all right. Tom, really appreciate you breaking it down with us after the meeting, enjoyed the rest of the weekend.

Unknown Attendee

Thank you.

Michael Santoli

Thank you. If you can't get enough of Berkshire's businesses sign up for CNBC's Buffett Watch newsletter, you'll get weekly updates on Berkshire's top stock holdings and exclusive video clips from the Buffett archive as well. You can sign up at buffettnewsletter.com.

Rebecca Quick

Before we close out our coverage of this year's annual Berkshire Hathaway Annual Meeting, we want to make sure we leave you with some of the best sound from today's question-and-answer sessions. By the way, thank you all for joining us for the special day of coverage right here on CNBC and cnbc.com. Have a great night, everybody. And I'll see you back here from Omaha [Swakbox] on Monday morning.

Warren E. Buffett
Chairman, CEO & President

I think that the incentives in bank regulation are so messed up. And so many people have an interest in having them messed up. It's totally crazy. The messaging has been very poor, been poor by politicians who sometimes have an interest in having it poor. It's been poor by the agencies. And I'd say it's been for by the press. I mean you shouldn't have so many people that misunderstand the fact that although there may be a debt ceiling it's going to get changed. Although there's a $250,000 limit on FDIC to the FDIC in the U.S. government and American Public have no interest in having a bank fail or they have deposits actually lost by people.

A lot of things that could happen out of the present situation. Depositors will not lose money stockholders and debt holders of the holding company only, they should lose money and the people borrow out on commercial real estate. And now it doesn't -- the loans aren't getting extended, they should leave it's too bad. I mean it's part of borrowing on 100% margin, which is what people were doing, have been doing in commercial real estate. You've got to have the penalties, get the people because the problems and if they took risk that they should know it, it needs to fall on them. If you're going to change how people are going to behave in the future.

Apple has a position with consumers where they're paying maybe they pay $1,500 or whatever it may be for a phone. And these same people pay $35,000 for having a second car. And if they had to give up a second car or give up their iPhone, they give up their second car. I mean, it's an extraordinary probably we don't have anything like that, but we own 100% of, but we're very, very, very happy to have 5.6 or whatever may be a percent. And we're delighted every 10% that goes up. It's like adding $100 million to our earnings. I mean our share of the earnings. And they use their earnings to buy out our partners, which we're glad to see them sell out too.

Charles Thomas Munger
Executive Vice Chairman

I am personally skeptical of some of the types gone into artificial intelligence. I think old fashioned and intelligence works pretty well.

Warren E. Buffett
Chairman, CEO & President

You can do all kinds of things. And something that can do all kinds of things. I get a little bit worried. And -- because I know we won't be able to uninvent it.

Charles Thomas Munger
Executive Vice Chairman

There's been some tension in the economic relationship of United States and China, I think that, that tension has been wrongly created on both sides. I think we're equally guilty of being stupid but there's one thing we should do it get along with China, and we should have a lot of free trade with China in our mutual interest. And I just can't imagine it's just so obvious. There's so much safety and so much creativity that's possible. Think what Apple has done by engaging in a partnership with China as a big supplier. It has been good for Apple and good for China. That's the kind of business we were doing with China and more of it. And with everything that increases the tension between the 2 companies is stupid, stupid, stupid. And already stopped on each side. And each side to respond to the other side stupidity with reciprocal kindness.

Warren E. Buffett
Chairman, CEO & President

The world is changing those. New things coming along don't take away the opportunities. What gives you opportunities is other people doing dumb things. And it's -- and I would say that -- well, the 58 years, we've been running Berkshire. I would say there's been a great increase in the number of people doing dumb things, and they do big dumb things. And the reason they do it to some extent is because they can get money from other people so much easier than when we started.

We will not be making any offer for control of [oxinema], but we love the shares we have. We may or may not own more in the future, but we certainly have warrants on which we got as part of the original deal on a very substantial amount of stock at around $59 a share. And -- and once last a long time. I'm glad we have them.

Charles Thomas Munger
Executive Vice Chairman

As they go over, Elon Musk overestimates himself, but he has -- he is very talented. So he's -- he's overestimating somebody who doesn't need to overestimate to be very talented. You would not have achieved what he has in life. If he hadn't tried her unreasonably extreme objectives. He likes taking on the impossible job in doing it. We're different. Warren and I are looking for the easy job that we can identify.

Warren E. Buffett
Chairman, CEO & President

Yes. If we can do a play tick-tack-toe, we'll do it. I mean.

Charles Thomas Munger
Executive Vice Chairman

We have a whole different way of going way.

Warren E. Buffett
Chairman, CEO & President

But we don't want to compete with Elon in a lot of things.

Charles Thomas Munger
Executive Vice Chairman

I mean we don't want that much failure.

Warren E. Buffett
Chairman, CEO & President
Yes.