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Market Intelligence

Berkshire Hathaway Inc. NYSE:BRK.A

Shareholder/Analyst Call

Saturday, May 04, 2019 2:45 PM GMT

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Call Participants

EXECUTIVES

Ajit Jain
Vice Chairman of Insurance Operations & Director

Charles Thomas Munger
Vice Chairman

Gregory Edward Abel
Vice Chairman of Non Insurance Business Operations & Director

Rebecca K. Amick
Director of Internal Auditing

Walter Scott
Director

Warren E. Buffett
Chairman, President & CEO

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Barclays Bank PLC, Research Division

Jonathan Brandt

SHAREHOLDERS

Unknown Shareholder

ATTENDEES

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Andrew Serwer

Becky Quick

Bill Moyer

Carol Loomis

Feroz Qayyum

Jonathan Brandt

Robert H. Lee

Unknown Attendee

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Presentation

Andrew Serwer

The meeting has started. Here are Charlie Munger and Warren Buffett.

Warren E. Buffett
Chairman, President & CEO

Those of you who have come from out of state, welcome to Omaha. The city is delighted to have you here for this event. And for those of you who came from outside of the country, welcome to the United States. So we've got people here from all over the world. We've got some overflow rooms that are taking care of people. And we will just have a few preliminaries and then we will move right into the Q&A period.

We'll break about noon for about an hour. We'll come back and do more Q&A until about 3:30, then we'll adjourn for a few minutes. And then they will conduct the meeting.

I understand that in the room adjacent, that Charlie has been conducting a little insurgency campaign. I don't know whether you've seen these, but these are the buttons that are available for those of you who -- you keep asking questions about succession, and Charlie wants to answer that question by getting your vote today. So it says -- this one says, maturity, experience, why accept second best, both for Charlie and -- I, however, have appointed the monitors who will collect the votes, so I feel very secure.

The first thing I'd like to do, Charlie is my partner of 60 years, Director and Vice Chairman, and we make the big decisions jointly. It's just that we haven't had any big decisions. So we haven't -- we're keeping him available for the next big one.

Now at the formal meeting today, we'll elect 14 directors, and you're looking at 2 of them. And I'd like to introduce the 12 that will be on the ballot at 3:45. And I'm going to proceed alphabetically. And if they'll stand, if you would, hold your applause because some of them get sensitive of certain people getting more applause than others. And if you'll withhold it until I'm finished, then you can applaud or not, as you see fit, having looked at these directors.

So we'll start on my left Greg Abel, who's both a Vice Chairman and a Director. Greg? Yes, oh, there we are, right. Okay. And going along alphabetically, Howard Buffett; Steve Burke; Sue Decker; Bill Gates; Sandy Gottesman; Charlotte Guyman; Ajit Jain, who is also a Vice Chairman; Tom Murphy; Ron Olson; Walter Scott and Meryl Witmer. Now you can applaud.

Now this morning, we posted on our website the quarterly -- the 10-Q that's required to be filed with the SEC. We published it at 7:00 Central Time and we also published an accompanying press release. And if we'll put Slide 1 up, these figures, as usual, require some explanation. As we've mentioned in the annual report, the new GAAP rules, Generally Accepted Accounting Principles, require that we mark our securities to market and then report any unrealized gains in our earnings. And you can see, I've warned you about the distortions from this sort of thing. And the first quarter of 2019 actually was much like the first quarter of 2018. And I hope very much that newspapers do not read headlines saying that we made $21.6 billion in the first quarter this year against the loss of last year. These -- the bottom line figures are going to be totally capricious. And what I worry about is that not everybody studied accounting in school or they can be very smart people, but that doesn't mean that they've spent any real time on accounting. And I really regard these bottom line figures, particularly if they're emphasized in the press, as doing -- as potentially being harmful to our shareholders and really not being helpful. So I encourage you now and I encourage all the press that's here, focus on what we call our operating earnings, which were up a bit, and forget about the capital gains or losses in a given period. Now they're enormously important over time. We've had substantial capital gains in the future. We have substantial unrealized capital gains at the present time. We expect to have more capital gains in the future. They are an important part of Berkshire, but they have absolutely no predictive value or analytical value in the -- on a quarterly basis or an annual basis. And I just hope that nobody gets misled in some quarter when stocks are down and people say, Berkshire loses money or something that's sort of -- it's really a shame that the rules got changed in that

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way, but we will report. But we will also explain and we will do our best to have the press understand the importance of focusing on operating earnings, and that we do not attract shareholders who think that there's some enormous gain because in the first quarter, the stock market was up.

But there's one other footnote to these report -- to these figures that I should point out. It's already been picked up by the wires from our 7:00 filing. We report on Kraft Heinz of which we own about 27% or so. We report on what's called the equity method. Now most stocks, when you get dividends, that goes into our earnings account and their undistributed earnings don't affect us. They affect us in a real way, but they don't affect us in an accounting way. We are part of a control group at Kraft Heinz. So instead of reporting dividends, we report what they call equity earnings. Kraft Heinz has not filed their 10-K for the 2018 year with the SEC. And therefore, they have not released the first quarter of 2019 earnings. Now normally, we would include our percentage share of those earnings and we've done that every quarter up 'til this quarter. But because we do not have those figures, we've just -- we've not included anything. We received $0.40, $130 million of dividends in the first quarter from our shares, but that reduces our carrying basis and it is not reflected in the earnings. So that's an unusual item which we have mentioned, specifically pointed out in our press release as well as included in our own. But there is nothing in here plus or minus for Kraft earnings -- Kraft Heinz's earnings this year, whereas there was last year and when we have the figures, obviously, we will report them.

Let's see what beyond that I want to tell you. I think -- oh, yes, I'd want to mention to you, the Kiewit company, which has been the landlord since 1962, 57 years, has owned the building in which Berkshire is headquartered. Kiewit company is moving their headquarters and in the process, will be doing something with the building. And they very generously, as they always have been, they came and said what kind of a lease would you like since we're leaving and we've always sort of worked these things out as we've gone along. And Bruce Grewcock who runs Kiewit said, you just sort of -- you name your terms and what you'd like. So you'll -- no matter what happens with the building, you're all set. So I was about to sign a 10-year lease for the present space, but Charlie said 10 years might be long enough for me, but he said he would like me to sign one for 20 years considering it. And so we are entering a 20-year lease, and I confess to you that we now occupy 1 full floor as we have for decades. And the new lease provides for 2 floors. So I just want you to know that your management is loosening up just a little bit. And whether or not we fill them is another question, but we will have that and I would like to say to Omaha that I think the fact that Berkshire has signed up for 20 years is very good news for the city over time.

Okay. And now I would like to tell you something about the people that make all of this possible. This is totally a -- this is a homegrown operation. We started with a few people meeting in the lunch room at National Indemnity many years ago. And I think we will probably set another record for attendance today. Yesterday afternoon, 16,200 people came in 5 hours and that broke the previous record by a couple of thousand. On Tuesday, the Nebraska Furniture Mart did $9.3 million worth of business and if any of you are in the retail business, you'll know that that's a yearly volume for some furniture stores. And here at Omaha, the 50th or so largest market in the country, maybe even less, $9.3 billion I think probably exceeds anything any home furnishing store's ever done in 1 day. And we have people pitching, and we have all the people -- virtually all of the people from Omaha, but some of them, they'll take on any task. We have a bunch of people from National Indemnity, for example, that come over and there've been some of the monitors around.

But -- and in terms of the exhibit hall, more than 600 people from our various subsidiaries give up a weekend, come to Omaha, work very hard. Tomorrow 4:00 or 4:30, they are -- I should say today at 4:00, 4:30, they will start packing up things and heading back home and they come in and I saw them all yesterday. And there were a bunch of very, very happy smiling faces. And they don't -- they work hard all year and then they come in and help us out on this meeting.

And then finally, if we could get a spotlight, I think, Melissa Shapiro is someplace here. She runs the whole show. I mean, we -- Melissa, where are you? Melissa's name was Melissa Shapiro before she got married, and she married a guy named Shapiro, so now she's Melissa Shapiro Shapiro. So that's -- but she can handle that sort of thing. She handles everything. And never -- totally unflappable, totally organized, everything gets done, everybody likes her when they get through. So it's marvelous to get a chance to work with people like this.

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It's -- I think it's a special quality that -- at Berkshire. And I think other people would hire some group to put on the meeting and all be very professional and all of that. But I don't think you can get -- I don't think you can buy the enthusiasm and energy and help the next guy feeling that you've seen out on that exhibition floor and you'll see as you meet people here at the hall and as you meet the people around Omaha, they are very, very happy that you are here.

And with that, I would like to start on the questions. We'll do it just as we've done it in recent years. We'll start with the press group. They've received e-mails from a great many people, perhaps they can tell you how many, and selected the questions they think would be most useful to the Berkshire's shareholders. Yahoo! is webcasting this as they've done for several years now. They've done a terrific job for us. So this meeting is going out both in English and in Mandarin. And I hope our results translate well or our comments translate well. Sometimes we have trouble with English. But we're going to -- we'll start in with Carol Loomis, my friend of 50 years, but you'll never know it by the questions she's going to ask me.

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Question and Answer

Carol Loomis

I'm going to start briefly. And just for the benefit of people who send us questions next year, there are kind of 2 things that you get wrong a lot of time. You can't send 2-part questions or 3-part or et cetera. We can't -- we need a 1-part question. And the other thing is that the questions will need to have some relevance to Berkshire. Because Warren said, when he started it, that his hope was that shareholders would come out of the questions with a further education about the company. So keep those in mind for next year.

Many people -- a number of people wrote me about repurchases of stock and that's the question I picked for my first one. The question is -- this particular question comes from [Ward Cookie], who is in Belgium and who was still e-mailing me this morning in reference to the first quarter report.

And he asked: my question concerns your repurchase of Berkshire's shares. In third quarter of last year, you spent almost $1 billion buying Berkshire B stock at an average price of $207. But then you got to a period between December 26 and April 11, when the stock languished for almost 4 months under $207 and yet, you purchased what I think of as a very limited amount of stock even as you were sitting on an enormous pile of $112 billion.

My question is why you did not repurchase a lot more stock, unless, of course, there was, for a time, an acquisition of, say, $80 billion to $90 billion on your radar?

Warren E. Buffett
Chairman, President & CEO

Yes, the question whether we had $100 billion or $200 billion would not make a difference -- or $50 billion, would not make a difference in our approach to repurchase of shares. We repurchase shares. We formulate -- we used to have a policy of tying it to book value there, but that became really obsoleted, that did not -- the real thing is to buy stock, repurchase shares only when you think you're doing it and at a price where the remaining shareholders have had -- are worth more the moment after you repurchased it than they were the moment before. It's very much like if you were running a partnership and you had 3 partners in it and the business was worth $3 million. And one of the partners came and said I'd like you to buy back my share of the partnership for $1 billion -- I started out with $1 million, so I'll stay with millions -- well, for $1.1 million, and we said forget it. And if he said, $1 million, we'd probably say forget it. And he said -- and if he said $900,000, we'd take it. Because at that point, the remaining business would be worth $2.1 million and we'd have 2 owners and our interest in value would have gone from $1 million to $1,050,000. So it's very simple arithmetic.

Most companies adopt repurchase programs and they just say we're going to spend so much. That's like saying that we're going to buy X, Y, Z stock and we're going to spend so much or we're going to buy a company, we're going to spend whatever it takes. We will buy stock when we think it is selling below a conservative estimate of its intrinsic value. Now the intrinsic value is not a specific point, it's probably a range in my mind that my type of band maybe at 10%. Charlie would have a band in his mind and it would probably be 10%, and ours would not be identical, but they'd be very close. And sometimes he might figure a bit higher than I do, a bit lower, but we want to be sure when we repurchase shares that those people who have not sold shares are better off than they were before we repurchased them. And it's very simple. And in the first quarter of the year, they'll find we bought something over $1 billion worth of stock and that's nothing like my ambitions. But it -- what that means is that we feel that we're okay buying it, but we don't salivate over buying it. We think that the shares we repurchased in the first quarter leave the shareholders better off than if we hadn't, the remaining shareholders better off than if we hadn't bought it, but we don't think the difference is dramatic. And you will -- you could easily see periods where we would spend very substantial sums if we thought the stock was selling at, say, 25% or 30% less than it was worth and we didn't have something else that was even better. But we have no ambition in any given quarter to spend a dime unless we think you're going to be better off for us having done so. Charlie?

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Charles Thomas Munger
Vice Chairman

Well, I predict that we'll get a little more liberal in repurchasing shares.

Warren E. Buffett
Chairman, President & CEO

I was going to give you equal time, but then. Okay. Jon Brandt?

Jonathan Brandt

Every major North American railroad other than Burlington Northern has adopted at least some aspects of precision scheduled railroading, generally, to good effect to their bottom line. Some believe that point-to-point schedule service and minimal in-transit switching is good for both returns on capital and customer service. Others believe precision railroading has done little for on-time performance and its rigidity has jeopardized a compact that railroads have had with both regulators and customers. Do you and current BNSF's management believe that it's now a good idea for BNSF to adopt precision railroading playbook or do you agree with its critics?

Warren E. Buffett
Chairman, President & CEO

Yes. Precision railroading, as it's labeled, was probably invented by a fellow named Hunter Harrison. I think maybe he was at the Illinois Central Railroad at the time. There's a book that came out about Hunter, who died maybe a year ago or thereabouts. And it describes the -- his procedure toward railroading. It's an interesting read, if you're interested in railroading. And he took that to Canadian National, CN. There are 6 big railroads in North America. And he took that to the CN and he was very successful. And actually, Bill Gates is probably the largest holder of CN. So -- and I think he's done very well with that stock. And then later, Canadian Pacific was the subject of an activist. And when they -- as they proceeded, they got Hunter to join them and brought in an associate, Keith Creel, who -- and they instituted a somewhat similar program, now the same thing has happened at CSX. And all those companies dramatically improved their profit margins and they had varying degrees of difficulty with customer service and the implementing of it. But I would say that we watch very carefully, and Pacific is doing a somewhat modified version, but the -- we are not above copping anything that is successful. And I think that there's been a good deal that's been learned by watching these 4 railroads. And we will -- if we think we can serve our customers well and get more efficient in the process, we will adopt whatever we observe, but we don't have to do it today or tomorrow, but we do have to find -- we have to find something that gets at least equal and hopefully, better customer satisfaction and that makes our railroad more efficient. And there's been growing evidence that from the actions of these other 4 railroads, there's been growing evidence that we can learn something from what they do. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I doubt that anybody is very interested in unprecision in railroading.

Warren E. Buffett
Chairman, President & CEO

Well, Jon, has Charlie answered your question?

Jonathan Brandt

Yes. Thank you.

Warren E. Buffett
Chairman, President & CEO

Okay. Station #1 from the shareholder group up on my far right.

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Bill Moyer

Good morning. My name is Bill Moyer, and I'm from Vashon Island, Washington and I'm part of a team called the Solutionary Rail project. Interestingly, only 3.5% of the value of freight in the U.S. moves on trains. Berkshire Hathaway is incredibly well positioned with its investments in the northern and southern transcon through BNSF to grab far more of that freight traffic off of the roads and get diesel out of our communities as well as harness transmission corridors for your Berkshire renewable energy assets, for which you're obviously very proud. Would you consider meeting with us to look at a proposal for utilizing your assets and leveraging a public-private partnership to electrify your railroads and open those corridors for a renewable energy future?

Warren E. Buffett
Chairman, President & CEO

No. I believe we've examined a lot of things in terms of LNG. I mean, they're -- obviously, we want to become more energy-efficient as well as just generally efficient. And I'm not sure about the value of freight, you mentioned 3.5%. I believe -- I mean, I'm not sure what figure you're using as the denominator there, because if you look at movement of traffic by ton miles, rails are around 40% of the U.S. We're not talking local deliveries or all kind of things like that, but they're 40% roughly by rail. And BNSF moves more ton miles than any other entity. We move 15%-plus of all the ton miles moved in the United States.

But if you take trucking for example, on intermodal freight, we're extremely competitive on the longer hauls, but the shorter the haul, the more likely it is that the flexibility of freight where a truck can go any place and we have rails. So the equation changes depending on distance hauled and other factors, but distance hauled is a huge factor. We can move a ton mile with 500 -- we can move 500-plus ton miles of freight for 1 gallon of diesel. And that is far more efficient than trucks, so the long haul traffic and the heavy traffic is going to go to the rails and we try to improve our part of the equation on that all the time. But if you're going to transport something 10 or 20 or 30 miles between a shipper and the receiver and there, you're not going to move that by rail. So we look at things all the time, I can assure you. Kara Luwisch is in -- well, he's probably here now and he'll be in the other room, and he's running the railroad. You're free talk to him, but I don't see any breakthrough like you're talking about.

I do see us getting more efficient year by year by year and, obviously, if trucks -- driverless trucks become part of the equation, that moves things toward trucking. But on long haul heavy stuff and there's a lot of it, you're looking at the railroad that carries more than any other mode of transportation, and BNSF is the leader. Charlie?

Charles Thomas Munger
Vice Chairman

Well, over the long term, our questioner's on the side of the angels. Sooner or later, we'll have it more electrified. I think Greg will decide when it happens.

Warren E. Buffett
Chairman, President & CEO

Yes. But we're all working on the technology, but -- and we're considerably more efficient than 10, 20, 30 years ago, if you look at the numbers. But one interesting figure. I think right after World War II, when the country probably had about 140 million people against our 330 million now, so we had 40% of the population, we had over 1.5 million people employed in the railroad industry. Now there's less than 200,000 and we're carrying a whole lot more freight. Now there is -- obviously, there's some change in passengers, but the efficiency of the railroads compared to -- and the safety compared to what it was even immediately after World War II has improved dramatically. Charlie, any more?

Charles Thomas Munger
Vice Chairman

No.

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Warren E. Buffett
Chairman, President & CEO

Okay. Becky?

Becky Quick

This is a question that comes from [Mike Havill]. He says the star performer's investment club has 30 partners, all of whom are active or retired San Francisco police officers. Several of our members have worked in the fraud detail and have often commented after the year's long fraudulent behavior of Wells Fargo employees should have warranted jail sentences for several dozen. Yet, Wells just pays several penalties and changes management. As proud shareholders of Berkshire, we cannot understand Mr. Buffett's relative silence compared to its vigorous public pronouncement many years ago on Salomon's misbehavior. Why so quiet?

Warren E. Buffett
Chairman, President & CEO

Yes, I would say this. The probable -- well, as I see it, although I've read no reports internally or anything like that, but it looks to me like Wells made some big mistakes in what they incentivized and as Charlie says, incentive -- there's nothing like incentives, but they can incentivize the wrong behavior. And I've seen that in a lot of places and that clearly existed at Wells.

The interesting thing is to the extent that they set up fake accounts, a couple of million of them that had no balance in them, that could not possibly have been profitable to Wells. So you can incentivize some crazy things. The problem is -- I'm sure is that -- and I don't really have any inside information on it at all, but when you find a problem, you have to do something about it. And I think that's where they probably made a mistake at Wells Fargo.

They made it with Salomon. I mean, John Gutfreund would never have played around with the government -- he was the CEO of Salomon in 1991. He never would have done what the bond trader did, that played around with the rules the federal government had about government bond betting. But when he heard about it, he didn't immediately notify the Federal Reserve. And he heard about it in late April and May 15, the government bond auction came along, and Paul Mozer did the same thing he had done before and gamed the auction. And at this point, John Gutfreund, the destiny of Salomon was straight downhill from that stand -- from that point forward. Because essentially, he heard about a pyromaniac and he let him even keep the box of matches. And at Wells, my understanding it was an article in Los Angeles Times, maybe a couple of years before the whole thing was exposed and somebody ignored that article. And Charlie has beaten me over the head all the years at Berkshire, because we have 390,000 employees and I will guarantee you that some of them are doing things that are wrong right now, but there's no way to have a city of 390,000 people and not need a policemen or a court system. And some people don't follow the rules, and you can't incentivize the wrong behavior. You got to do something about when it happens.

Wells has become Exhibit 1 in recent years, but if you go back a few years, you can almost go down -- there's quite a list of banks where people behaved badly. And where they, I would not say -- I don't know the specifics at Wells, but I've actually written in the annual report that they talk about moral hazard if they pay off people. The shareholders of Wells have paid a price, the shareholders of Citicorp paid a price, the shareholders of Goldman Sachs, the shareholders of Bank of America, they paid billions and billions of dollars and they didn't commit the acts, and of course, nobody did go -- there were no jail sentences. And that is infuriating. But the lesson that was taught was not that the government would bail you out because the government got its money back, but the shareholders of the various banks paid many, many billions of dollars. And I don't have any advice for anybody running a business, except when you find out something is leading to bad results or bad behavior, if you are in the top job, you've got to take action fast. And that's why we have hotlines, that's why we get -- when we get certain anonymous letters, we turn them to over to the Audit Committee or to outside investigators and we will have -- I will guarantee you that we will have some people do things that are wrong at Berkshire in the next year or 5 years, 10 years and 50 years, it's -- you cannot have 390,000 people. And it's the one thing that always worries

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me about my job, that -- because I've got to hear about those things and I've got to do something about them when I do hear about them. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I don't think people ought to go to jail for honest errors of judgment. It's bad enough to lose your job. And I don't think that any of those tall officers was deliberately malevolent in any way. I just -- we're talking about honest errors in judgment. And I don't think Tim Sloan even committed honest errors of his judgment. I just think he was an accidental casualty that didn't deserve the trouble. I wish that Tim Sloan was still there.

Warren E. Buffett
Chairman, President & CEO

Yes, there is no evidence that he did a thing, but he stepped up to take a job that where he was going to get the piñata basically for all kinds of investigations and rightfully, Wells should be checked out on everything they do, all banks should. I mean, they get a government guarantee and they receive trillions of dollars in deposits. And they do that because of -- basically because of the FDIC. And if they abuse that, they should pay a price. And if anybody does anything like a Paul Mozer did, for example, or Salomon, they ought to go to jail. Paul Mozer only went to jail for 4 months, but if you're breaking laws, you should be prosecuted on it. If you do a lot of dumb things, I wish they wouldn't go away, the CEOs wouldn't go away so rich under those circumstances, but people will do dumb things.

I actually proposed -- I think it may have been one of the annual reports even. I proposed that if a bank gets to where it needs government assistance, that basically, the responsible CEO should lose his net worth and his spouse's net worth if he doesn't want the job under those circumstances. And I think that the directors that -- I think they should come after the directors for the last 5 years. I think I proposed of the -- of all -- of everything they'd received, but it's the shareholders who'll pay. I mean, that if we own 9% of Wells, whatever this has cost, 9% of it is being borne by us. And it's very hard to tie it directly.

One thing you should know incidentally though is that the FDIC, which was started -- I think it was started January 1, 1934, but it was a new deal proposal. And the FDIC has not cost the United States government a penny. It now has about $100 billion in it and that money has all been put in there by the banks and that's covered all the losses of the hundreds and hundreds and hundreds of financial institutions. And I think the impression is that the government guarantee saves the banks, but the government money did not save the banks. The bank's money, as an industry not only have paid every loss, but they've accumulated an extra $100 billion and that's the reason the FDIC assessments now are going back down, they had them at a high level. And they had a higher level for the very big banks. So it -- when you hear all the talk about -- the political talk about the banks, they have not cost the federal government a penny. They have -- they did all -- there were a lot of actions that took place that should not have taken place. And there's a lot of people are now, I think, than there were in the period leading up to 2008 and '09. But some banks will make big mistakes in the future. Charlie?

Charles Thomas Munger
Vice Chairman

I've got nothing to add to that.

Warren E. Buffett
Chairman, President & CEO

Okay. Jay Gelb from Barclays. Barclays just had a -- got a proxy contest, and I'm sorry, it's in there...

Jay H. Gelb
Barclays Bank PLC, Research Division

That's right, Warren. I also have a question on Berkshire Hathaway -- I'm sorry on share buybacks. Warren, in a recent Financial Times article, you were quoted saying that the time may come when the company buys back as much as $100 billion of its shares, which equates to around 20% of Berkshire's

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current market cap. How did you arrive at that $100 billion figure? And over what time frame would you expect this to occur?

Warren E. Buffett
Chairman, President & CEO

Yes. I probably arrived at that $100 billion figure in about 3 seconds when I got asked the question. It was a nice round figure, and we could do it. And we would like to do it if the stock was -- we've got the money to buy in $100 billion worth of stock. And bear in mind, if we are buying at $100 million stock, it probably would be that the company wasn't selling at $500 billion, so I might buy well over 20%.

We will spend a lot of money. We've been involved in companies where the number of shares has been reduced 70% or 80% over time. And we like the idea of buying shares at a discount. We do feel if shareholders -- if we're going to be repurchasing shares from shareholders who are partners, and we think it's cheap, we ought to be very sure that they have the facts available to evaluate what they own. I mean, just as if we had a partnership. It would not be good if there were 3 partners and 2 of them decided that they would sort of freeze out the third maybe in terms of giving them material information that they knew that, that third party didn't know. So it's very important that our disclosure be the same sort of disclosure that I would give to my sisters who are the imaginary. They're not imaginary, but they're the shareholders to whom I address the annual report every year. Because I do feel that you -- if you're going to sell your stock, you should have the same information that's important that's available to me and to Charlie. But we will -- if our stock gets cheap relative to intrinsic value, we would not hesitate. We wouldn't be able to buy that much in a very short period of time in all likelihood, but we would certainly be willing to spend $100 billion. Charlie?

Charles Thomas Munger
Vice Chairman

I think when it gets really obvious, we'll be very good it at.

Warren E. Buffett
Chairman, President & CEO

Let me get that straight. What did you say, Charlie?

Charles Thomas Munger
Vice Chairman

When it gets really obvious, we'll be very good at it.

Warren E. Buffett
Chairman, President & CEO

Yes. I was hoping that's what you said, but yes, we will be good at it. But we don't have any trouble being decisive. We don't do it -- we don't say yes very often. But if we'd something, something obvious, I mean, if -- Jay, if you and I are partners and our business is worth $1 million and you say you'll sell your half to me for $300,000, you might get $300,000 very quickly. Okay, station 2.

Unknown Attendee

My name is [Patrick Donahue] from Eden Prairie, Minnesota and I'm with my 10-year-old daughter, [Brooke Donahue].

Unknown Attendee

Hi, Warren. Hi, Charlie.

Warren E. Buffett
Chairman, President & CEO

It's [Brooke], is it?

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Unknown Attendee

It is. First, I'm a proud graduate of Creighton University, and I need to say a personal thank you for coming over the years to share your insights. And it's been a tradition since I graduated in 1999 to come to the Annual Meeting. And thank you for a lifetime of memories.

Warren E. Buffett
Chairman, President & CEO

Thank you.

Unknown Attendee

[Brooke] is a proud Berkshire shareholder and read the letter and had some questions regarding investments that have been made in the past. And she had made some interesting comments about what she thought was a lot of fun. So our question for both of you is outside of Berkshire Hathaway, what is the most interesting or fun personal investment you have ever made?

Warren E. Buffett
Chairman, President & CEO

Well, they're always more fun when you make a lot of money off of them. Well, I watch -- one time I bought 1 share of stock in the ATLED CORP. that's spelt A-t-l-e-d. And ATLED had 98 shares outstanding and I bought 1, and not what you call a liquid security. And ATLED happened to be the word delta spelled backwards and 100 guys in St. Louis had each chipped in $50 or $100 or something to form a duck club in Louisiana. And they bought some land down there. The 2 guys didn't come up with -- there were 100 of them, 2 of them defaulted on their obligation to come up with $100. So there were 98 shares out. And they went down to Louisiana and they shot some ducks, but apparently, somebody shot -- fired a few shots into the ground and oil spurted out and those delta duck club shares. And there's -- I think the delta duck club field was still producing and I bought stock in it 40 years ago for $29,200 a share. And it was -- it had that amount in cash and it was bruising a lot and they sold it. If they kept it, that stock might have been worth $2 million or $3 million a share, but they sold off to another oil company. But I -- that was certainly -- that was the most interesting thing. Actually, I didn't have any cash at the time. And I went down and borrowed the money and I bought it for my wife. And I borrowed the money and the loan officer said, "Would you like to borrow some money to buy a shotgun as well?" Charlie, tell him about the one you missed.

Charles Thomas Munger
Vice Chairman

Well, I got 2 investments that come to mind. When I was young and poor, I spent $1,000 once buying oil royalty and it paid me $100,000 a year for a great many years. But I only did that once in a lifetime.

On a later occasion, I bought a few shares of Belridge Oil, which went up 30x rather quickly. And -- but I turned down 5x as much as I bought. It was the dumbest decision of my whole life. So if any of you have made any dumb decisions, look up here and feel good about yourselves.

Warren E. Buffett
Chairman, President & CEO

I could add a few, but Andrew?

Unknown Attendee

Warren and Charlie, this is a question -- actually, we've got a handful of questions on this topic. This is probably the best formulation of it. Warren, you have been a long-time outspoken Democrat. With all the talk about socialism versus capitalism taking place among Democratic presidential candidates, do you anticipate an impact on Berkshire in the form of more regulations, higher corporate taxes or even calls for breakups among the many companies we own if they were to win? And how do you think about your own

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politics as a fiduciary of our company? And at the same time, as someone who has said that simply being a business leader doesn't mean you put your citizenship in a blind trust.

Warren E. Buffett
Chairman, President & CEO

Yes, I have said that, that you do not put your citizenship in a blind trust. But you also don't speak on behalf of your company -- you do speak as a citizen if you speak, and therefore, you have to be careful about when you do speak because it's going to be assumed you're speaking on behalf of your company.

Berkshire Hathaway, certainly in 54 years, has never and will never made a contribution to a presidential candidate. I don't think we've made a contribution to any political candidate, but I don't want to say it for 54 years that -- we don't do it. Now we have -- we operate in several regulated industries, and our railroad and our utility as a practical matter, they have to have a presence in Washington or in the state legislatures in which they operate. So there, we have some -- a few, I don't know how many, political action committees, which existed when we bought it, when we bought the companies at subsidiaries. And I think that unquestionably, they make some contributions simply to achieve the same access as their competitors. I mean, if the trucking industry is going to lobby, I'm sure the railroad industry is going lobby. But the general -- well, the rule is, I would say -- I mean, that people do not pursue their own political interest with your money here. We've had 1 or 2 managers over the years, for example, that would do some fundraising where they were fundraising from people who were suppliers of them or something of this sort. And if I ever find out about it, that ends promptly. But the -- my position at Berkshire is not to be used to further my own political beliefs, but my own political beliefs can be expressed as a person not as a representative of Berkshire when a campaign is important. I try to minimize it, but it's no secret that in the last election, for example, I raised money. I won't give money to PACs. I accidentally did it one time. I didn't know it was a PAC. But I don't do it, but I raised -- I've raised substantial sums. I don't like the way money is used in politics, I've written top ed pieces for the New York Times in the past on the influence of money in politics. I spent some time with John McCain many years ago before McCain found gold on ways to try to limit it, but the world has developed in a different way.

On your question about the -- I will just say I'm a card-carrying capitalist. But I -- and I believe we wouldn't be sitting here except for the market system and the rule of law and some things that are embodied in this country. So I -- you don't have to worry about me changing in that manner, but I also think that capitalism does involve regulation. It involves taking care of people who are left behind, particularly when the country gets enormously prosperous. But beyond that, I have no Berkshire podium for pushing anything. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think we're all in favor of some kind of government social safety net in a country that's prosperous as ours. What a lot of us don't like is the vast stupidity with which parts of that social safety net are managed by the government. It would be much better if we could do it more wisely. But I think that also might be better if we did it more liberally.

Warren E. Buffett
Chairman, President & CEO

Yes, one of the reasons we're involved in this effort along with JP Morgan and Amazon with Jamie Dimon and Jeff Bezos on the medical question is we do have as much money going -- $3.3 trillion or $3.4 trillion. We have as much money going to medical care as we have funding the federal government. And that's -- it's gone from 5% to 17% or 18%, while actually, the amount going to the federal government has stayed about the same at 17%. So we hope there's a -- some major private improve -- major improvements from the private sector because I generally think the private sector does a better job than the public sector in most things. But I also think that if the private sector doesn't do something, you'll get a different sort of answer. And I think -- I like to think that the private sector can come up with a better answer than the public sector in that respect, but I will probably -- it depends who's nominated, but I've voted for plenty of

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Republicans over the years. I even ran for delegate to the Republican National Convention in 1960. And -- but we are not -- I don't think the country will go into socialism in 2020 or in 2040 or 2060.

Charles Thomas Munger
Vice Chairman

Okay. Greg Warren?

Greggory Warren
Morningstar Inc., Research Division

Warren, my first question not surprisingly is on share repurchases. Stock buybacks in the open market are functionable to willing buyers and sellers. With Berkshire having 2 shares of classes, you should have more flexibility when buying back stock. But given the liquidity in the different settings just between the 2 share classes, with an average of 313 Class A shares exchanging hands daily the past 5 years, equivalent to around $77 million a day, and an average of 3.7 million Class B shares doing the same, equivalent to around $622 million, Berkshire is likely to have more opportunities to buy back Class B shares than Class A, which is exactly what we saw during the back half of last year in the first quarter of 2019.

While it might be more ideal for Berkshire to buy back Class A shares allowing you to retire shares with far greater voting rights, given that there's relatively little arbitrage between the 2 share classes and the number of Class B shares increase every year as you gift your Class A shares to the Bill and Melinda Gates Foundation and your children's foundations, can we assume that you're likely to be a far greater repurchaser of Class B shares going forward, especially given your recent comments to the Financial Times about preferring to have loyal individuals on your shareholder list which are price tag of $328,000 of Class A shares seems to engender?

Warren E. Buffett
Chairman, President & CEO

Yes. We will -- when we're repurchasing shares, if we -- if we're purchasing substantial amounts, we're going to spend a lot more on the Class B than the Class A just because the trading volume is considerably higher. We may, from time to time, where we got offered a couple of blocks in history -- going back in history from the [Olchie] estate and then the -- when we had a transaction exchanging our Washington Post stock for both the television station and shares held -- A shares held by the Washington Post. So we may see some blocks of A. We may see some blocks of B. But there's no question, if we are able to spend $25 billion, $50 billion or $100 billion in repurchasing shares, more of the money is almost certainly going to be spent on the B than the A. We don't -- there's no master plan on that other than to buy aggressively when we like the price. And as I say, the trading volume in the B is just a lot higher than the A in dollar amounts. Charlie?

Charles Thomas Munger
Vice Chairman

I don't think we care much which class we buy.

Warren E. Buffett
Chairman, President & CEO

Yes. We would like -- we really want the stock. Ideally, if we could do it -- if we were small -- once a year, we'd have a price, and we do it like a private company. And it would be a fair price and people will want to get out -- could get out. And if other people want to buy their interest, fine. And if they didn't and we thought the price was fair, we'd have the company repurchase it. We can't do that.

But that's -- we don't want the stock to be either significantly underpriced or significantly overpriced. And we're probably unique on the overpriced part, but we don't want it. We -- I do not want the stock selling at twice as what it's worth because I'm going to disappoint people. I mean we can't make it. There's no magic formula to make a stock worth what it's selling for if it sells for way too much. We don't -- from a commercial standpoint, if it's selling very cheap, we have to like it, and we repurchase it. But ideally, we would hope the stock would sell in the range that more or less is its intrinsic value, business value. We

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no -- have no desire to hype it in any way, and we have no desire to depress it so we can repurchase it cheap. But then that -- the nature of markets is that things get overpriced and they get underpriced. And we will -- if it's underpriced, we'll take advantage of it. Okay. Station 3.

Unknown Attendee

Charlie Munger and Warren Buffett, my idols. I'm [Terry] from Shanghai [Judge B Fund], which aim to catch the best investment opportunity in this area. So my question is, as we all know, 5G is coming. It is said that the moat of all industry will be challenging in 5G area. So what is the core competence that we should muster if Berkshire Hathaway wants to catch the best investment opportunities in this area?

Warren E. Buffett
Chairman, President & CEO

Well, there's no core competence at the very top of Berkshire. The -- but we -- the subsidiaries that will be involved in developments relating to 5G or any one of all kinds of things that are going to happen in this world, the utility of LNG at -- and the railroad or all the same kinds of questions, we have people in those businesses that know a lot more about them than we do. And then -- and this is it. We count on our managers to anticipate what is coming in their business, and then sometimes they talk to us about it. But we do not run that from a central -- on a centralized basis.

And Charlie, do you want to have anything to add to that? Do you know anything about 5G I don't know. You probably know a lot about 5G.

Charles Thomas Munger
Vice Chairman

No. I know very little about 5G. But I do know a little about China. And we have bought things in China, and my guess is we'll buy more.

Warren E. Buffett
Chairman, President & CEO

Yes. But I mean we basically want to have a group of managers, and we do have a group of managers who are on top of their businesses. I mean you saw something that showed BNSF and Berkshire Hathaway Energy and Lubrizol; all aware of that. Those people know their businesses. They know what's -- they know what changes are likely to be ahead. Sometimes, they find things that they can cooperate on between their businesses, but we don't try to run those from headquarters.

And that may mean that may have certain weaknesses at certain times. I think Matt has been a terrific benefit for Berkshire. But our managers, to a great degree, own their businesses, and they -- we want them to feel a sense of ownership. We don't want them to be lost in some massive conglomerate and nobody -- that where they get directions from this group, which is a subgroup of that group. And I could tell you a few horror stories from companies we've bought when they tell us about their experience under such an operation.

So we -- the world is going to change in dramatic ways. Just think how much it's changed in the 54 years that we've had Berkshire, and some of those changes hurt us. They hurt us in textiles. They hurt us in shoes. They've hurt us in the department store business, hurt us in the trading stamp business, and those -- these were the founding businesses of this operation. But we do adjust and we've got a group, overall, of very good businesses. We've got some that will be actually destroyed by what happens in this world. But that's -- I still have am the card-carrying capitalist and I believe that that's a good thing. But you have to make changes. We had 80% of the people working on farms in 1800. And if there hadn't been a lot of changes and you needed 80% of the people in the country producing the food and cotton we needed, we would have had a whole different society.

So we welcome change, and we certainly want to have managers that can anticipate and adapt to it. But sometimes, we'll be wrong, and those business will wither and die, and we better use the money someplace else.

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Charlie? Okay, Carol. Charlie, you haven't had any team [indiscernible] out here.

Carol Loomis

Okay. This question comes from [Vincent James] of Munich, Germany. There has been a lot written about the recent impairment charge at Kraft Heinz. You recorded as stating that you recognize that Berkshire overpaid for Kraft Heinz. Clearly, major retail chains are being more aggressive in developing house brands. In addition, Amazon has announced intentions to launch grocery outlets, being that, as Mr. Bezos has often stated, "Your margin is my opportunity."

The more fundamental question related to Kraft Heinz may be whether the advantages of the large brands and 0-based budgeting that 3G has applied are appropriate and defensible at all in consumer for -- foods. In other words, will traditional consumer good brands in general and Kraft Heinz in particular have any moat in their future? My question is to what extent do the changing dynamics in the consumer food market change your view on the long-term potential for Kraft Heinz?

Warren E. Buffett
Chairman, President & CEO

Yes. I -- actually, what I said was we paid too much for Heinz -- I mean Kraft, I'm sorry. With the Heinz part of the transaction, we originally owned about half of Heinz, we paid an appropriate price there and we actually did -- well, we had some preferred, regained and so on. We paid too much money for Kraft. To some extent, our own actions had driven up the prices.

Now Kraft Heinz, the profits of that business, $6 billion we'll say very, very, very roughly, I'm not projecting them up, not making forecasts, but $6 billion pretax on $7 billion of tangible assets is a wonderful business. But you could pay too much for a wonderful business. We bought See's Candy, and we made a great purchase as it turned out. And we could have paid more, but there's some price at which we could have bought even See's Candy and it wouldn't have worked. So the business does not know how much you paid for it. I mean it's going to earn based on its fundamentals. And we paid too much for the Kraft side of Kraft Heinz. Additionally, the profitability has basically been improved in those operations over the way they were operating before.

But you're quite correct that Amazon itself has become a brand. Kirkland at Costco, $39 billion brand. All of Kraft Heinz is $26 billion, and it's been around for -- on the hindsight, it's been around for 150 years, and it's been advertised billions and billions of billions of dollars in terms of their products. They go through tens of thousands of outlets. And there's somebody like Costco establishes a brand called Kirkland, and it's doing $39 billion, more than virtually any food company. And that brand moves from product to product, which is terrific if a brand travels. I mean Coca-Cola moves it from Coke to Cherry Coke and Coke Zero and so on. But to have a brand that can really move, and Kirkland does more business than Coca-Cola does. And Kirkland operates through 775-or-so stores. They call them warehouses at Costco, and Coca-Cola's through millions of distribution outlets.

So brands, the retailer and the brands have always struggled as to who gets the upper hand in moving a product to the consumers. And there's no question in my mind, that the position of the retailer relative to the brands, which varies enormously around the world -- in different countries, you've had 35%, even maybe 40% be private label brands in soft drinks, and it's never gotten anywhere close to that in United States. So it varies a lot. But basically retailers, certain retailers, the retail system has gained some power and particularly in the case of Amazon and Walmart and their reaction to it. And Costco and ALDI and some others I could name has gained in power relative to brands.

Kraft Heinz is still doing very well operationally, but we paid too much. We paid $50 billion of -- it would have been a different business. It'd still be earning the same amount. You can turn any investment into a bad deal by paying too much. What you can't do is turn any investment into a good deal by paying little, which is sort of how I started out in this world. But the idea of buying the cigar butts when we got a declining on 4 businesses for a bargain price is not something that we try to do anymore. We try to buy good businesses at a decent price, and we made a mistake on the Kraft part of Kraft Heinz. Charlie?

Charles Thomas Munger

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Vice Chairman

Well, we -- it's not a tragedy, is it? Of 2 transactions, one worked wonderfully and the other didn't work so well. That happens.

Warren E. Buffett
Chairman, President & CEO

The reduction at cost, there can always be mistakes made when you've got places rearranging, reorganizing them to do more business with them with the same number of people. And we like buying businesses that are efficient to start with. But the management, the operations of Kraft Heinz have been improved under the present management overall. But we paid a very high price in terms of the Kraft part. We didn't -- we paid an appropriate price in terms of Heinz. Jonathan?

Unknown Attendee

Internet-based furniture retailers like Wayfair appear willing to stomach large current losses acquiring customers in the hope of converting them to loyal online shoppers. I've been wondering what this disruptive competition might do to our earnings from home furnishing retail operations like Nebraska Furniture Mart. If we have to transition to more of an online model, might we have to spend more heavily to keep shoppers without a corresponding increase in sales?

The sharp decline in first quarter earnings from home furnishings suggests perhaps some winding impact from intensifying competition. Do you believe Wayfair's customers-first, profits-later model is unsustainable? Or do you think our furniture earnings will likely be permanently lower than they were in the past?

Warren E. Buffett
Chairman, President & CEO

I think furniture, the jury's still out on that whether the operations, which have grown very rapidly in size but still are incurring losses, how they will do over time. It is true that in the present market, partly because of the -- some successes like, most dramatically, Amazon in the past, that investors are willing to look at losses if -- as long as sales are increasing and hope that there will be better days ahead.

We do a quite significant percentage of our sales online in the furniture operation that might surprise you. We do the highest percentage in Omaha. And what's interesting is that we -- I won't give you the exact numbers, but it's large. We do a significant dollar volume. But a very significant portion of that volume, people come to the store to pick up, so that they -- they will order something from us online, but they don't mind -- they don't seem to mind at all, and they don't have to do it, but they get to pick up at the store.

So you learn what customers like, just like people learned in fast food that people would buy a lot of food but -- going through a drive-in that they don't want to stop and go into the place. We learn about customer behavior as it unfolds, but we did do now. On Tuesday, we did $9.2 million of -- or $9.3 million of profitable line at the Nebraska Furniture Mart, and I think that company had paid in capital of $2,500. And I don't think anything's been added since. So it's working so far.

The first quarter, it's interesting. The first quarter was weak at all 4 of our furniture operations, but there are certain other parts of the economy, well, just home building generally, it's considerably below what you would have expected considering the recovery we have had from the 2008-'09 period. I mean if you look at single-family home construction, the model has shifted more to people living in apartment rentals. I think it's gone from 69-and-a-fraction percent, it got down to 63%. It's bounced up a little bit. But people are -- they're just not building or moving the houses as rapidly as I would have guessed. They would have based on figures prior to 2008 and '09. And considering the recovery we've had and considering the fact that money is so cheap and that has some effect on our furniture stores. And I think we've got a very good furniture operation, not only the Nebraska Furniture Mart but other furniture operations.

And we will see whether the models work and over the long run, but they -- I think they have a reasonable chance. Some things, people -- we're learning that people will buy some things that they've

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always gone to the mall or to a retail outlet to buy, that they will do it online and others don't work so well. Charlie?

Charles Thomas Munger
Vice Chairman

I think we will do better than most furniture retailers.

Warren E. Buffett
Chairman, President & CEO

I think that's a certainty overall, overall, but we've got some good operations there. And -- but we don't want to become a showroom for the online operations and have people come look around the place and then order someplace else. So we have to have the right prices, and we're good at that at the Furniture Mart. Station 4.

Unknown Attendee

Warren and Charlie, my name is [Brent Nguyo]. I'm from Winnipeg, Canada. First, thank you for devoting so much time and energy to education. I'm a better investor because of your efforts. But more importantly, I'm a better partner, friend, son, brother and soon-to-be a first-time father. There's nothing more important than these relationships, and my life is better because you're willing to pass on your experience and wisdom.

My path into finance was unconventional. I worked as an engineer for 12 years, while 2 years ago, I began a career in finance working for the Civil Service Superannuation Board, a $7 billion public pension fund in Winnipeg. I work on alternative investments, which include infrastructure, private equity and private credit. I go to work every day knowing that I'm there to benefit the hard-working current and future beneficiaries of the fund.

Like most asset classes, alternative purchase multiples have increased. More of these assets are funded with borrow money, and the terms and covenants on this debt are essentially nonexistent. With this in mind and knowing the constraints of illiquid closed-end funds, please give me your thoughts on private alternative investments, their relevancy in public pension funds and your view on long-term return expectations.

Warren E. Buffett
Chairman, President & CEO

Yes. If you had leveraged up investments in just common stocks, and you'd figured a way so that you would have staying power if there were any market dip, I mean, you'd obviously have reaped -- obtain extraordinary returns. I pointed out in my investing lifetime, in an index fund would do 11%, well imagine how you'd have done if you'd leveraged that up 50% at whatever the prevailing rates were over time.

So a leveraged investment in a business is going to beat an unleveraged investment in a good business a good bit of the time. But as you point out, the covenants to protect debt holders has -- have really deteriorated in the business. And of course, you've been in an upmarket for businesses and you've got a period of low interest rates. So it's been a very good time for it.

I -- my personal opinion is if you take unleveraged returns against unleveraged common stocks, I do not think what is being purchased today and marketed today would work well. But if you could borrow money, you can buy assets that will yield 7% or 8%. And you can borrow enough money at 4% or 5% and you don't have any covenants to meet, you're going to have some bankruptcies but you're going to also have better results in many cases. It's not something that interests us at all. We are not going to leverage up Berkshire.

If we've leveraged up Berkshire, we'd have made a whole lot more money obviously over the years. But both Charlie and I probably have seen some more high-IQ people, really extraordinary high-IQ people, destroyed by leverage. We saw long-term capital management where we had people who could do it in their sleep math that we couldn't do. At least I couldn't do and I'm working full time at it during the

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day. And I mean really, really smart people working with their own money and with years and years of experience of what they were doing and it all turned to pumpkins and mice in 1998. And it potentially was a source of national concern, just a few hundred people. And then we saw some of those same people, after that happened to them once, go on and do the same thing again. So it's -- I wouldn't -- I would not get excited about so-called alternative investments.

There's -- you can get all kinds of different figures, but there may be -- there's probably at least $1 trillion committed to buying -- in effect, buying businesses. And if you figure they're going to leverage them 2 for 1 on that, you may have $3 trillion of buying power trying to buy businesses in a -- well, the U.S. market, maybe something over $30 trillion now, but there's all kinds of business that aren't for sale than I think. So the supply/demand situation for buying businesses privately and leveraging them up has changed dramatically from what it was 10 or 20 years ago. And I'm sure it doesn't happen with your Winnipeg operation, but we have seen a number of proposals from private equity funds where the returns are really not calculated in a manner that -- well, they're not calculated in a manner that I would regard as honest.

And so I -- it's not something -- if I were running a pension fund, I would be very careful about what was being offered to me. If you're going to have a choice in Wall Street between being a great analyst or being a great salesperson, the salesperson is the way to make it. If you can raise $10 billion in a fund and you get a 1.5% fee and you lock people up for 10 years, you and your children and your grandchildren will never have to do a thing if you were the dumbest investor in the world. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think what we're doing will work more safely than what he's doing and -- but I wish him well.

Warren E. Buffett
Chairman, President & CEO

Yes. [Brent], you sound -- actually, you sound like a guy that I would hope would be working for a public pension fund because, frankly, most of the institutional funds -- well, we had this terrible -- right here in Omaha, and you can get a story of what happened with our Omaha public schools retirement fund. And they were doing fine and -- until the manager started going in a different direction. And the trustees here, perfectly decent people, and the manager had done okay to that point and it became...

Charles Thomas Munger
Vice Chairman

Well, they're smarter in Winnipeg than they are here. That was pretty bad here.

Warren E. Buffett
Chairman, President & CEO

It's not a fair fight, actually, when -- usually when a bunch of public officials are listening to people who were motivated to really just get paid for raising the money. Everything else is gravy after that. But if you run a fund and you get even 1% of $1 billion, you're getting $10 million a year coming in. And if you've got the money locked up for a long time, it's a very one-sided deal.

And I've been told the story of asking the guy one time in the past, "How in the world can you -- why in the world can you ask for 2 and 20 when you really haven't got any kind of evidence that you are going to do better with the money than you do in the next fund?" And he said, "Well, that's because I can't get 3 and 30."

Charles Thomas Munger
Vice Chairman

What I don't like about a lot of the pension fund investments is I think they like it because they don't have the market down as much as it should be in the middle of the panics. I guess the silly reason to buy something because you're giving leniency in marking it down.

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Warren E. Buffett
Chairman, President & CEO

Yes. And when you commit the money, in the case of private equity, often you -- they don't take the money, but you pay a fee on the money that you've committed. And of course, you really have to have that money, to come up with it any time, and of course, it makes a return look better. If you sit there for a long time in treasury bills, which you have to hold because they can call you up and demand the money, and they don't count that, they count it in terms of getting a fee on it, but they don't count it in terms of what the so-called internal rate of return is. It's not as good as it looks. And I really do think that when you have a group sitting as a state pension fund...

Charles Thomas Munger
Vice Chairman

While all they're are doing is lying a little bit to make the money come in.

Warren E. Buffett
Chairman, President & CEO

Yes. Yes. That sums it up. Yes. Becky?

Becky Quick

This question is from [Ken Scarbeck] in Indianapolis. He says with the full understanding that Warren had no input on the Amazon purchase and that relative to Berkshire, it's likely a small stake, investments still caught me offguard. I'm wondering if I should begin to think differently about Berkshire looking out, say, 20 years. Might we be seeing a shift in investment philosophy away from value-investing principles that the current management has practiced for 70 years?

Amazon is a great company, yet it would seem its heavy shares 10 years into a bull market appear to conflict with being fearful when others are greedy. Considering this and other recent investments, like StoneCo, should we be preparing for a change in the price versus value decisions that built Berkshire?

Warren E. Buffett
Chairman, President & CEO

Yes. It's interesting that the term value investing came up because I can ensure you that both managers who -- and one of them bought some Amazon stock in the last quarter, which will get reported in another week or 10 days. He is a value investor. Yes. I knew that value was somehow connected to book value or low price earnings ratios or anything. As Charlie has said, all investing is value investing. I mean you're putting out some money now to get more later on, and you're making a calculation as to the probabilities of getting that money and when you get it and what interest rates will be in between. And all the same calculation goes into it whether you're buying some bank at 70% of book value or you're buying Amazon at some very high multiple reported earnings. Amazon, the people making the decision on Amazon are absolutely much value investors as I was when I was looking around through all these things, selling below working capital years ago. So that has not changed.

The 2 people that one of whom made the investment in Amazon, they are looking at many hundreds of securities, and they can look at more than I can because they're managing less money in their universe, possibly universe is greater. But they are looking for things that they feel they understand what will be developed by that business between now and Judgment Day and cash. And it's not sales. Current sales can make some difference. Current profit margins can make some difference. Tangible assets, excess cash, excess debt, all of those things go into making a calculation as to whether they should buy A versus B versus C. And they're absolutely following valuable principles. They don't necessarily agree with each other or agree with me, but they are very smart. They're totally committed to Berkshire, and they're very good human beings on top of it. So I don't second-guess them and I don't think -- Charlie doesn't second-guess me on. In 60 years, he's never second-guessed me on investment.

And the considerations are identical when you buy Amazon versus some, say, bank stock that's -- looks cheap statistically against book value or earnings or something of the sort. In the end, it all goes back

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to Aesop, who in 600 BC said that a bird in the hand is worth 2 in the bush. And when we buy Amazon, we try and figure out whether -- or the fella that bought it, tries to figure out whether there's 3 or 4 or 5 in the bush and how long it will take to get to the bush, how certain he is that they're going to get to the bush and who else is going to come and try and take the bush away and all of that sort of thing. And we do the same thing, and it really -- despite a lot of equations you learn in business school, the basic equation is that of Aesop. And the -- and your success in investing depends on how well you were able to figure out how certain that bush is, how far away it is and what the worst case is, instead of 2 birds being there, only 1 being there and the possibilities of 4 or 5 or 10 or 20 being there. And that will guide me. That will guide my successors in investment management at Berkshire, and I think they'll be right more often than they're wrong. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I -- Warren and I are a little older than some people and...

Warren E. Buffett
Chairman, President & CEO

And everybody.

Charles Thomas Munger
Vice Chairman

And we're not the most flexible probably in the whole world. And of course, if something as extreme as this Internet development happens and you don't catch it, like, other people are going to blow by you. And I don't mind not having caught Amazon or like the guy that's kind of a miracle worker. It's very peculiar. I give myself a pass on that. But I feel like a horse's ass for not identifying Google better. I think Warren feels the same way.

Warren E. Buffett
Chairman, President & CEO

Yes.

Charles Thomas Munger
Vice Chairman

We screwed up.

Warren E. Buffett
Chairman, President & CEO

He's saying we blew it. And we did have some insights into that because we were using them at GEICO, and we were seeing the results produced. And we saw that we were paying $10 a click or whatever it might have been for something that had a marginal cost to them of exactly 0. And we saw it was working for us so....

Charles Thomas Munger
Vice Chairman

We can see it in our own operations, "Oh well, that Google advertising was working." And we just sat there sucking our thumbs. So we're ashamed. We atone -- we're trying to atone. Maybe Apple was atonement.

Warren E. Buffett
Chairman, President & CEO

When he says, "sucking our thumbs," I'm just glad he didn't use some other example. Okay, [Jay]?

Unknown Attendee

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This question is on Berkshire's intrinsic value. Warren, in your most recent annual letter, you discussed the methodology to estimate Berkshire's intrinsic value. However, a major component of Berkshire's value that many investors find challenging to estimate is that of the company's vast and unique insurance business. Could you discuss how you value the company's insurance unit based on information Berkshire provides, especially since GAAP book value is not disclosed, of the insurance unit?

Warren E. Buffett
Chairman, President & CEO

Well, our insurance business gives us a float. That's other people's money which we're temporarily holding but which gets regenerated all the time. So it's a practical manner. It has a very, very long life, and it's probably a little more likely to grow than shrink. So we have $124 billion that people had given us. And that's somewhat like having a bank that just consists of one guy, and people come in and deposit $124 billion and promise not to withdraw it forever.

And we've got a very good insurance business that's taken a very long time to develop it, very long time. In fact, I think we probably have the best property cash of the operation, all things considered, in the world that I know of, of any size. So it's worth a lot of money. It's probably -- we think it's worth more to us and we think it's worth more while lodged inside Berkshire.

We'd have a very, very high value on that. I don't want to give you an exact number because I don't know the exact number but -- and any number I would have given you in the past would have turned out to be wrong, on the low side. We have managed to earn money on money that is given to us for nothing and have the side earnings from underwriting and then have these large earnings from investing. And it's an integral part of Berkshire.

There's a certain irony to insurance that most people don't think about. But if you really are prepared, and you have a diversified property-casualty insurance business, a lot of property business in it, if you're really prepared to pay your claims under any circumstances that come along in the next 100 years, you have to have so much capital in the business that it's not a very good business. And if you really think about a worst-case situation, the reinsurance, that's insurance you buy from other people, who's an insurance company that protects you against extreme losses, among other things, that reinsurance probably could likely be not good at all. So even though you think you're laying off part of the risk, if you really take the worst case example if you're not laying off, it may well not be laying off the risk. And if you keep the capital required to protect against that worst-case example, you'll have so much capital in the business that it isn't worthwhile.

Berkshire is really the ideal form for writing the business because we have this massive amount of assets that, in many cases, are largely uncorrelated with natural disasters, and we can -- we don't need to buy reinsurance from anybody else. And we can use that -- we can use the money in a more efficient way than most insurance companies.

It's interesting, 3 -- in the last 30 years, the 3 largest reinsurance companies -- and I'm counting Lloyd's as one company, although it isn't. It's a group of brokers assembled and underwriters assembled at a given location, but people think of Lloyd's as a massive reinsurance market, which it is, not technically one entity. But if you take the 3 largest companies, and they're all in fine shape now, they're first-class operations, but all 3 of them came close to extinction sometime in the last 30 years, reasonably close. And we didn't really have any truly extraordinary natural catastrophes. The worst we had was Katrina, in whatever it was, 2006 or thereabouts, 2005. But we didn't have any worst-case situation. And all 3 of those companies, which everybody looks at as totally good on the asset side, we show a recoverable from them, 2 of the 3 actually made some deals with us to help them in some way. And they're all in fine shape now.

But it's not -- it's really not a good business if you keep your -- as a stand-alone insurer, if you keep enough capital to really be sure you can pay anything that comes along under any kind of conditions. And Berkshire can do that, and it can use the money in ways that it likes to use.

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So it's a very valuable asset. I don't want to give you a figure on it, but we would not sell it. We certainly wouldn't want to sell it for its float value. And if that float was negative, it'd show on the balance sheet as a liability. So it's extraordinary, and it's taken a long time to build, it'd be very, very, very hard for anybody to -- I don't think they could build anything like it. It just takes so long.

And we continue to plow new ground. If you went in the next room, you would have seen something called THREE, which is our movement toward small and medium business owners for commercial insurance. And it's an online operation, and it will take all kind -- it'll do all kinds of mid-course adjusting and that sort of thing. We're only just started up in 4 states but we'll -- 10 or 20 years from now, that will be a significant asset of Berkshire, just like GEICO has grown from 2-and-a-fraction billion of premium to who knows, but well into the mid-$30 billion just with Tony Nicely. And what I said in the Annual Report that Tony Nicely, who's here today...

Charles Thomas Munger
Vice Chairman

Warren, is there anybody in the world who has a big casualty insurance business that you'd trade our business for theirs?

Warren E. Buffett
Chairman, President & CEO

Yes. No way. We really -- it's taken a long time, and it's taken some tremendous people. And Tony Nicely has created more than 50 -- with his associates, and he's got 39,000 of them, more than -- probably more now because he's drawing that here. He's created more than $50 billion at GEICO of value for Berkshire. So...

Charles Thomas Munger
Vice Chairman

Yes. It's pretty much what you'd expect. It's such an easy business taking in money now and cash and just giving the books and giving a little of it back. There's a lot of stupidity gets into it. And if you're not way better than the average at it, you're going to lose money in the end. It's a mediocre business for most people.

Warren E. Buffett
Chairman, President & CEO

It started out…

Charles Thomas Munger
Vice Chairman

And it's good at Berkshire only because we're a lot better at it. If we ever stop being a lot better at it, it wouldn't be safe for us either.

Warren E. Buffett
Chairman, President & CEO

And Ajit Jain has done a similar thing. He's done it in a variety of ways within the insurance business. But I would not want to undo -- if somebody had to give me more than $50 billion to undo everything he has produced for Berkshire -- and he walked into my office on a Saturday in the mid-1980s. He'd never been in the insurance business before. And I don't think there's anybody in the insurance world that doesn't wish to be walked into their office instead of ours at Berkshire. It's been extraordinary. It's truly been extraordinary.

But we have Tom Nerney. We have Tim Kenesey. We have -- at MedPro. We have Tom Nerney at U.S. liability. We have -- at GUARD Insurance, we only bought that a few years ago, and that's a terrific operations based in Wilkes-Barre, Pennsylvania. Who would expect to find a great insurance operation in Wilkes-Barre? But we've got a great insurance -- really great insurance operation right here in Omaha

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about 2 miles from here, and it was bought by us in 1967. And it changed. It changed. Berkshire, we build on that base. We've got a -- we've really got a great insurance business.

And I won't give you a number but it's probably a bigger number than you've got in your head for -- and it's worth more within Berkshire than it would be worth as an independent operation. Somebody can say, well, this little gem, if it was put out there, would sell at a higher multiple or something of the sort. It works much better as being part of a whole where we have had 2 tiny operations, 2 tiny insurance operations many, many years ago, and they both went broke. The underwriting was bad, but we paid all the claims. We did not walk away. We paid every dime of claims. And nobody worries about doing any kind of financial transaction with Berkshire.

And today, on Saturday, about 9 in the morning, we got a -- I got a phone call, and people made a deal the next day committing Berkshire to pay out $10 billion come hell or high water, no [alts] for material adverse change or anything like that. And people know we'll be there with $10 billion. And they know in the insurance business, when we write a policy that may come -- be payable during the worst catastrophe in history or maybe payable 50 years from now, they know Berkshire will pay. And that's why we've got $124 billion of float. Okay. Station 5.

Unknown Attendee

Warren and Charlie, I'm [Neil Nuranov]. I'm 13 years old and from San Francisco. I feel like I see you in our living room a lot. My dad is constantly playing these videos of you at these meetings, and he teaches me a lot of lessons about you guys. But many of them require the delayed gratification skill. I want to know is there any way that kids can develop the delayed gratification skill?

Charles Thomas Munger
Vice Chairman

I'll take it if you want me to, Warren.

Warren E. Buffett
Chairman, President & CEO

Yes. of course, good.

Charles Thomas Munger
Vice Chairman

I'll take that because I'm a specialist in the delayed gratification. I have had a lot of time to delay it. And my answer is that this really come out of the womb with the delayed gratification thing or they come out of the womb where they have to have everything right now. And I've never been able to change them at all. So we identify it. We don't train it in.

Warren E. Buffett
Chairman, President & CEO

Charlie's had 8 children so he's become more and more of a believer in nature versus nurture.

Charles Thomas Munger
Vice Chairman

You'll probably [sign] some nice little woman of about 95 out there in threadbare clothing, and she's delaying gratification right to the end and probably has 4,000 A shares. It's just these second- and third-generation types that are buying all the jewelry.

Warren E. Buffett
Chairman, President & CEO

It's interesting. If you think about -- we'll take it up to a broader point. But if you think of the long -- a 30-year government bond paying 3% and you allow for -- as an individual, paying some taxes on the 3% you'll receive and you'll have the Federal Reserve Board saying that their objective is to have 2% inflation,

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you'll really see that delayed gratification, if you own a long government bond, is that you get to go to Disneyland and ride the same number of rides 30 years from now that you would if you did it now. The low interest rates for people who invest in fixed-dollar investments really mean that you really aren't going to get -- eat steak later on if you eat hamburgers now, which is what I used to preach to my wife and children and anybody else that would listen many years ago.

So it's -- I don't necessarily think that for all families in all circumstances, that saving money is necessarily the best thing to do in life. I mean, if you really tell your kids they can -- whatever it may be, they never go to the movies or we'll never go to Disneyland or something of the sort because if I save this money, 30 years from now, we'll be able to stay a week instead of 2 days. I think there's a lot to be said for doing things that bring you and your family enjoyment rather than trying to save every dime.

So my advice, delayed gratification is not necessarily an unqualified course of action under all circumstances. I always believed in spending $0.02 or $0.03 out of every $1 I earn -- saving a breath. But I really -- I always had everything I wanted. I mean one thing you should understand, if you aren't happy having $50,000 or $100,000, you're not going to be happy if you have $50 million or $100 million. I mean it -- look, a certain amount of money does make you feel and those around you feel better, just in terms of being more secure in some cases. But loads and loads of money, I probably notice many rich people as just about anybody and I do not -- I don't think they're happier because they get super rich. I think they're -- I think they are happier when they don't have to worry about money. But you don't see a correlation between happiness and money beyond a certain place. So don't go overboard on delayed gratification. Andrew?

Unknown Attendee

This question comes from a shareholder of yours for more than 20 years, who asked to remain anonymous, but wanted me to start by saying, Warren and Charlie, I want to preface this question by saying it comes from a place of love for both of you and the beautiful painting you've drawn for us in the form of Berkshire.

Warren E. Buffett
Chairman, President & CEO

But.

Unknown Attendee

Now please update us on succession planning. And as you think about succession, would you ever consider having Greg and Ajit join you on stage at future annual meetings and allow us to ask questions of them and Ted and Todd as well so we can get a better sense of their thinking?

Warren E. Buffett
Chairman, President & CEO

That's probably a pretty good idea, and we've talked about it. We have Greg and Ajit here. And any questions that anybody wants to direct to them, it's very easy to move them over. And so we thought about having 4 of us up here. And this format is not set in stone at all, but -- because you -- I can tell you that -- actually, the truth is Charlie and I are afraid of looking bad. Those guys are better than we are. The -- you could not have 2 better operating managers than Greg and Ajit. I mean they are just fantastic what they accomplished. They know their businesses better. They work harder by far. And you're absolutely invited to ask questions that -- to be directed over to them at this meeting. I don't think -- yes, this format will not be around forever. And if it's better to get them up on this stage, we'll be happy to do it.

Ted and Todd, they're basically not going to answer investment questions. We regard investment decisions as proprietary basically. They belong to Berkshire. And we are not an investment advisory organization. So that is counter to the interests of Berkshire for them to be talking about securities they own. It's counter to the interests of Berkshire for Charlie or me to be doing it. We've done better because we don't publish every day what we're buying and selling. I mean if somebody's working on a new product at Apple or

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somebody's working at a -- on a new drug or assembling property or something, those are -- they do not go out and tell everybody in the world exactly what they're doing every day. And we're trying to generate ideas in investment, and we do not believe in telling the world what we're doing every day, except to the extent that we're legally required. But it's a good idea. Charlie?

Charles Thomas Munger
Vice Chairman

Well, one of the reasons we have trouble with these questions is because we're -- Berkshire is so very peculiar. There's only one thing like it. We have a different kind of unbureaucratic way of making decisions. There aren't any people in the headquarters. We don't have endless committees deliberating forever and making bad decisions. We just -- we're radically different, and it's awkward being so different. But I don't want to be like everybody else because this has worked better. So I think you're just going to have to endure us.

Warren E. Buffett
Chairman, President & CEO

We do think that it's a huge corporate asset, which may only surface very occasionally and depending very much on how the world is around us, but to be the one place, I think, in the world almost where somebody can call on a Saturday morning and meet on Sunday morning and have a $10 billion commitment and nobody in the world doubts whether that commitment will be upheld and it's not subject to any kind of welching on the part of the company that's doing it. It's got nothing involved other than Berkshire's word. And that's an asset that every now and then will be worth a lot of money to Berkshire, and I don't really think it will be subject to competition.

So -- and Ted and Todd, in particular, are an additional pipeline and have proven to be an additional pipeline in terms of facilitating the exercise of that ability. I mean they -- things come in through them that, for one reason or another, I might not hear about otherwise. So they've -- they have expanded our universe. In the markets we've had in recent years, that hasn't been important. I can see periods where they would be enormously valuable. Just take the question that was raised by the fellow from Winnipeg about weak covenants in bonds. I mean we could have a situation, the who-knows-when, who-knows-where or who-knows-whether, but we could have a situation where there could be massive defaults in the junk-bond type market. We've had those a couple of times, and we've made a fair amount of money off of them. But Ted and Todd would multiply our effectiveness in a big way if such a period comes along or if some other types of periods come along. They're very, very, very useful to Berkshire.

The call happened to come in on Friday from Brian Moynihan of -- CEO of Bank of America who's done an incredible job. But we have a better chance of getting more calls and having them properly filtered and everything, appropriately filtered, the next time conditions get chaotic than we did last time, and that's important. Charlie, you have…

Charles Thomas Munger
Vice Chairman

Well, I do think it's true that if the world goes to hell in a handbook -- hand basket, that you people will be in the right company. We've got a lot of cash, and we know how to behave well in a panic. And if the world doesn't go to hell, are things so bad now?

And I also want to report that your Vice Chairman is getting new social distinction. I've been invited during this gathering to go to a happy hour put on by the bitcoin people. And I tried to figure out what the bitcoin people do in their happy hour. And I finally figured it out. They celebrate the life and work of Judas Iscariot.

Warren E. Buffett
Chairman, President & CEO

Is your invitation still good? Well, bitcoin -- actually, on my honeymoon in 1952, my bride 19 and I 21, stopped in Las Vegas. We just got Miami -- Alice gave me the car and said have a good time, and we

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went west. So we stopped in the Flamingo. And I looked around and I saw all of these well-dressed -- they dressed better in those days, well-dressed people, who had come, in some cases, thousands of miles away, and this was before 4 jets, so transportation was this good. And they came to do something that every damn one of them knew was mathematically dumb. And I told Susie I said, "We are going to make a lot of money." I mean, imagine people going to stick money on some roulette number, whether 0 and a double 0 there and the way to present, they all could do it and they just do it. And I have to say bitcoin has rejuvenated that feeling in making bets. Okay, Greg?

Unknown Attendee

Warren and Charlie, while I understand Berkshire's need to trim its stake in Wells Fargo and any other banks you hold, each year in order to bring Berkshire's ownership stake below the 10% threshold required by the Federal Reserve for bank holdings, given the ongoing share repurchase activity that's taking place in the industry. I was kind of surprised though to see you move to trim all of your holdings where possible on a regular basis to eliminate the regulatory requirements that come with ownership levels above 10%, which, in my view, limits the investment universe that Berkshire, at least Warren, can meaningfully invest in longer term, given that Warren manages a large chunk of Berkshire's $200 billion equity portfolio. Could you elaborate more on the regulatory impact for Berkshire holding more than 10% of any company stock as well as how you feel about the Fed's recent proposal to allow investors like Berkshire own up to 25% of the shares of the bank without triggering more restrictive rules and oversight? Basically, if that proposal were to come to fruition, would you be willing to forgo that 10% threshold self-imposed that you've done and put money to work in names that you already are fairly comfortable with?

Warren E. Buffett
Chairman, President & CEO

Yes, the 10%, there's a couple...

Charles Thomas Munger
Vice Chairman

That's already answered, yes.

Warren E. Buffett
Chairman, President & CEO

Yes. We will -- there's 2 factors beyond in the case of banks, there is the reserve requirement. But many people probably don't even -- might not know about this. But if you own over 10% of a security, common stock and you sell it within 6 months at a profit, you give the money over to the company. You're -- it's a short swing profit that you're not -- you give them and you match your -- any sale against your lowest purchase. And I think if you sell it and then buy it within 6 months, I'm not as positive about that because I haven't really read the rule for a lot of years, but I think if you sell and then buy within 6 months and the purchase is below the price of which you made the sale, you owe the money to the company. There used to be lawyers that would scan that monthly SEC report that I used to get 30 or 40 years ago. They would scan it to find people that inadvertently had broken that rule and they would get paid a fee for recovering it for the company. So it restricts enorm -- it restricts significantly your ability to reverse a position or change your mind or something of the sort.

Secondly, I think you have to report within 2 or 3 business days, every purchase you make once you're in that over 10% factor. So you're advertising to the world and the world tends to follow as some saw, but really, it has a huge execution cost attached to it. Nevertheless, and those are both significant minuses and they're both things that people generally don't think about.

We did go over recently, for example, in Delaware, that was actually an accident, but I don't mind the fact that all that we did. And if the Federal Reserve changes its approach, we won't have to trim down below that. We don't want to become a bank holding company. And we don't want to -- we went in many years ago and got permission with Wells, but then our permission expired, and we went in again a few -- a couple years ago, and we spent a year or so and there was just a million questions that Wells had asked about us and so on. So it's been a deterrent. It will be a less of a deterrent in the future, but it does have

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those 2 -- the short swing thing is less onerous to us than it would be to most people who buy and sell stocks because we don't really think in terms of doing much.

Charles Thomas Munger
Vice Chairman

But if we didn't have all these damn rules, we would cheerfully buy more wouldn't we?

Warren E. Buffett
Chairman, President & CEO

Sure. Sure. Well, I doubt we'd buy that we'd do it cheerfully, but yes, we -- and we will -- you probably see us more than 10% in more things. And if the Fed changes rules, there will be companies where we'd drift up over 10%, simply because they're repurchasing their shares. That's been the case with Wells. And it's been the case with an airline or 2 in the last year or so. If we like 9.5% of a company, we would like 15% better. And you may see us be able to do a little differently on that in the future.

Charles Thomas Munger
Vice Chairman

Well, one more awkward disadvantage of being extremely rich.

Warren E. Buffett
Chairman, President & CEO

Yes. And it really is. Yes, and being -- and people following you. I mean, the followers problem can be a real problem. Okay. Station 6.

Unknown Attendee

I'm [Jeff Malloy] from San Francisco, and this is my first shareholders' meeting. Mr. Buffet and Mr. Munger, I'm 27 years old and aspire to be a great money manager like you 2, one day. I'm considering starting my own investment fund, but I also recognize that I'm young and have a lot to learn. My question to both of you is how did you know you were ready to manage other people's money? And what general advice would you give to someone in my shoes? Thank you.

Warren E. Buffett
Chairman, President & CEO

Well, that's a very interesting question because I've faced that and I sold securities for a while. But in May of 1956, I had a number of members of my family, I'd come back from New York and they wanted me to tell them about with stocks as I had earlier before I'd taken a job in New York and I said, I did not want to get into the stock sales business, but I wanted to -- I enjoyed investing. I was glad to figure out a way to do it, and which I did through a partnership form. But I would not have done that if I'd thought that there was any chance really that I would lose their money. And what I was worried about was not how I would behave, but how they would behave because I wanted -- I needed people that were in sync with me. So when we sat down for dinner in May of 1956 with 7 people either were related to me or one was a roommate in college and his mother, and I showed them the partnership agreement, I said you don't need to read this. There's no way that I'm doing anything in the agreement that there's any way that you don't need a lawyer to read or anything of the sort. But I said here are the ground rules as to what I think I can do and how I want to be judged and if you're in sync with me, I want to manage your money because I won't worry about the fact that you will panic if the market goes down or somebody tells you something different.

So we have to be on the same page. And if we're on the same page, then I'm not worried about managing your money. And if we aren't on the same page, I don't want to manage your money because you may be disappointed when I think that things are even better to be investing and so on. So I don't think you want -- I don't think you want to manage other people's money until you have a vehicle and can reach the kind of people that will be in sync with you. I think you ought to have your own ground rules as to what your expectations are, when they should send you roses and when they should throw bricks at you,

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and you want to be in the same -- and it's one reason I never -- we didn't have a single institution in the partnership because institutions meant committees and committees meant that...

Charles Thomas Munger
Vice Chairman

You've had some aunts that trusted you?

Warren E. Buffett
Chairman, President & CEO

What's that?

Charles Thomas Munger
Vice Chairman

You had some aunts who trusted you.

Warren E. Buffett
Chairman, President & CEO

Yes. Well, and my father-in-law who gave me everything he had in the world. But -- and I didn't mind taking everything he had in the world as long as he would stick with me and wouldn't get panicked by headlines and that sort of thing. And so it's very -- it's enormously important that you don't take people that have expectations of you that you can't meet. And that means you turn down a lot of people, it means you'd probably start very small and you get an audited record. And when you've got your confidence, where if your own parents came to you, they were going to give you all their money and you were going to invest for them, if you've got the kind of confidence that you'll say, I may not get the best record, but I'll be sure that you get a decent record over time, that's when you're ready to go on it. The...

Charles Thomas Munger
Vice Chairman

Let me tell you a story. I tell young lawyers who frequently come to me and saying how can I quit practicing Warren, and become a billionaire instead? So I say well, it reminds me of a story to tell about Mozart. A young man came to him and he said I want to compose symphonies and I want to talk to you about that. And Mozart said, how old are you? And the man said 22. And Mozart said, you're too young to do symphonies. And the guy said, but you were writing symphonies when you were 10 years old. He says yes, but I wasn't running around asking other people how to do it.

Warren E. Buffett
Chairman, President & CEO

Carol? We wish you well and if -- and we -- and actually, we really do because the fact you asked that sort of a question isn't, to some extent, indicative of the fact that you got the right attitude going in.

Charles Thomas Munger
Vice Chairman

It isn't that easy to be a great investor. I don't think we've have made it.

Carol Loomis

This question is from [Fros Tronberger] of Austria and his son [Leon], who are both Berkshire shareholders. And it did seem to me that in the years we've been doing this, nobody has ever asked this question as far as I know. Their question is, Mr. Buffet, I believe it is correct that in its SEC filings, that is the Securities and Exchange Commission, Berkshire does not have to give information about foreign stocks it holds. Assuming we hold foreign stocks, could you please tell us what our 5 largest positions are?

Warren E. Buffett
Chairman, President & CEO

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No, that fellow wants investment information. We really aren't in the investment information business. We disclose what we have to disclose. But we could set up an advisory -- investment advisory firm and probably take in a lot of money, but we haven't done it, and we aren't giving away what belongs to our shareholders for nothing. But he's correct that -- I'm 99% sure he's correct and Marc Hamburg can correct me, but -- from our office but we do not have to report foreign stocks, and we do have -- in certain important countries, there's lower thresholds at which we have to report our holdings as a percentage of the company stock outstanding. There's lower thresholds than there are in the United States. So in a sense -- in certain stocks. I think when we bought Munich Re stock or bought Tesco stock, or there are certain stocks we've had to report at before we would have had to report in the United States, but we will never unnecessarily advise if we plan to buy some land some place, if we plan to -- but we are not about giving business information that's proprietary to Berkshire. We don't give it unless we're required by law. And he is correct that -- I am virtually certain that we do not have to report our foreign stocks to -- on the SEC filings that -- and they'll have to find his own holdings in Austria. But I think his Mozart story may have curtained that particular question from Austria, what stocks we're going to own in Austria. Okay, Charlie, do you have any comments on that?

Charles Thomas Munger
Vice Chairman

No.

Warren E. Buffett
Chairman, President & CEO

Yes, I didn't think you would. [Johnny]?

Unknown Attendee

Precision Castparts pretax profit margins, while perfectly fine relative to American industry as a whole, continued to be almost 10 percentage points below where they were in the years preceding the acquisition. And I'm guessing they're lower than contemplated when the purchase price was determined. The annual report hints that unplanned shutdowns, the learning curve on new plane models and a shift of oil and gas capacity to aerospace might all be temporarily depressing margins, but it's unclear what a reasonable long-term margin expectation is for this unit.

Now, I know you won't want to issue a specific margin target or forecast, but I do have a question that I hope you can answer. Is the downward trend in earnings since 2015 mostly due to these transitory items? Or have the competitive structure of the industry in Precision's relationship with its customers changed to the point that meaningful increases from current margin levels are probably unlikely?

Warren E. Buffett
Chairman, President & CEO

Yes, your prelude is quite correct. Yes, I mean, they are below what we projected a few years ago, and my expectation -- but I would have told you this a year ago, and they haven't -- they have grown and improved somewhat. My expectation is based on the contracts we have and the fact that initial -- the initial years in anything than the aircraft industry, for example, tend to be less profitable as you go further down the learning curve and the volume curve; tend to be lower in the near term. My expectation is that the earnings of Precision will improve fairly significantly. And I think I mentioned maybe to you last year, in those earnings there is about $400 million a year of purchase amortization, which are economic earnings in our -- in my viewpoint. So -- but even including that $400 million a year, which they would be reporting if they were independent, and we don't report because we bought them and there's a purchase amortization charge, even without that, they are below what I would anticipate by a fair margin within a year or 2, that's the present expectation on my part. Charlie?

Charles Thomas Munger
Vice Chairman

No, I don't have any.

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Warren E. Buffett
Chairman, President & CEO

Yes. You'll have that question for me next year and I think I'll be giving you a different answer. Okay. Station 7.

Unknown Attendee

Good morning, Mr. Buffet, Mr. Munger. My name is [JDC], I'm 11 years old and I come from China. This is my second year at the meeting. Mr. Munger, it's great to see you again after the Daily Journal meeting in February. Mr. Buffet, you mentioned that the older you get, the more you understood about human nature. Could you elaborate more about what you've learned and how can the differences of human nature help you make a better investment? I would also like Mr. Munger to comment on that, please. Thank you very much.

Warren E. Buffett
Chairman, President & CEO

Well, you should wait for Charlie's answer because he's even older. He can tell you more about being old than I can even. The -- it's absolutely true that virtually any yardstick you use, I'm going downhill, and the -- if I would take a SAT test now and you could compare it to a score of when I was in my early 20s, I think it would be quite embarrassing. And it's certainly -- Charlie and I can give you a lot of examples and there's others we won't tell you about how things decline as you get older. But I would say this. It's absolutely true in my view that you can and should understand human behavior better as you do get older. You start to have more experience with it. And I don't think you can read -- Charlie and I read every book we could on every subject we were interested in when we were very young, and we learned an enormous amount just from others studying the lives of other people. And -- but I don't think you can really -- I don't think you can get to be an expert on human behavior at all by reading books, no matter what you write, no matter who the teacher is. And I think that you really do learn a lot about human behaviors. Sometimes you have to learn it by having mobile experiences. I think you -- I actually think I -- in spite all the other shortcomings and I can't do metal or arithmetic as fast as I used to and I can't read as fast as I used to, but I do think that I know a lot more about human behavior than I did when I was 25 or 30.

Charles Thomas Munger
Vice Chairman

You learn one mantra. It comes from a Chinese gentleman who just died, Lee Kuan Yew who is the greatest nation builder, probably that ever lived in the history of the world. He said one thing over and over and over again all his life. Figure out what works and do it. If you just go at life with that simple philosophy from your own national group, you will find it works wonderfully well. Figure out what works and do it.

Warren E. Buffett
Chairman, President & CEO

And figuring out what works means figuring out how other people behave.

Charles Thomas Munger
Vice Chairman

Of course. Of course.

Warren E. Buffett
Chairman, President & CEO

And Charlie and I have seen the extremes in human behavior and in so many unexpected ways and...

Charles Thomas Munger
Vice Chairman

And now I get it every night. Extremes is the only behavior. All you got to do is put on the television.

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Warren E. Buffett
Chairman, President & CEO

Yes. I'm glad you used that example. Okay, Becky.

Becky Quick

Warren, you mentioned in response to an earlier question that Ajit and Greg are both here to answer questions, and so I thought I'd ask this question that comes from [Will] in Seattle. He says his question is for Mr. Ajit Jain and Mr. Warren Buffett. You have said that you communicate regularly about unconventional insurance contracts that expose the company to extremely unlikely, but highly costly events. I'm curious about how you think about and safely price these unconventional insurance contracts. What analyses and mental checks do you run through your head to make sure that Berkshire Hathaway will profit without being unduly exposed to catastrophic risk? Furthermore, Mr. Buffet, would you want a future CEO to continue a similarly close collaboration with the chief underwriter?

Warren E. Buffett
Chairman, President & CEO

We will get a microphone to Ajit and a spotlight in just a second. And there he is. Ajit, why don't you answer first, if you'd like too?

Ajit Jain
Vice Chairman of Insurance Operations & Director

Obviously, the starting point, I mean, these situations, where there's not enough risk and not enough data to hang our hat on, it's more of an art than a science. We start off with as much science as we can use, looking at historical data that relates to the risk, in particular, or something that comes close to relating to the risk that we're looking at. And then beyond that, if there's not enough historical data we can look at, then clearly, we have to make a judgment in terms of what are the odds of something like that happening. We try -- we -- absolutely in situations like that, we absolutely make sure we cap our exposure, so that if something bad happens, or if we've got something wrong, we absolutely know that how much money we can lose and whether we can absorb that loss without much pain to the income statement or the balance sheet. In terms of art, it's a difficult situation, more often than not. It's impossible to have a point of view, and we end up passing on it. But every now and then, we think we can get a price, where the subjective odds we have on something like that happening has a significant margin of safety in it. So we feel it's a risk that's worth taking. And then finally, the absolute acid test is, I pick up the phone and call Warren. Warren, here's the deal, what do you think? Okay. Your turn, Warren.

Charles Thomas Munger
Vice Chairman

Okay. It's not easy and you wouldn't want just anybody doing it for you.

Warren E. Buffett
Chairman, President & CEO

No, no, no. In fact, the only one I would want doing it for us on the kind of things we have sometimes received is Ajit. I mean, it's that simple, there isn't anybody, there isn't anybody like him. And as Ajit said, we'll look at the worst case, but we are willing if we like the odds and like you said there's no way to look these up, we can tell you how many 6.0 or greater earthquakes have happened in the last 100 years, in Alaska or California so on. And there's a lot of things you can look up figures on. Now, sometimes those are useful and sometimes they aren't, but there's a lot where you can get a lot of data.

And then there's others that well, after 9/11, was that going to be the first of several other attacks that were going to happen very quickly. There were planes flying that couldn't -- well, they couldn't land in Hong Kong as I remember. I think it was Cathay Pacific couldn't land in Hong Kong the following Monday unless they had a big liability coverage placed with somebody. I mean, the world had to go on. The people that held mortgages on the Sears Tower all of a sudden wanted a coverage. I think that actually was one but there were -- they were just pouring in. People that hadn't been worried about something a week

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earlier and now they were worried about things involving huge sums. And there were really only a couple people in the world that would even listen and had the capacity to take on a lot of the deals we were proposing. There's no book to look up. So you do -- there's a big element of judgment.

Ajit and I, I mean, he's 100 times better at this than I am, but we do tend to think alike on this sort of thing. You don't want to think too much alike, but we think alike. I've got a willingness to lose a lot of money and most -- well, virtually every insurance company, if they get up to higher limits, they've got 3Ds in place, and they can only take this much and they got -- so the world was paralyzed on that. We don't get those now obviously. But we do occasionally get inquiries about doing things that really nobody else in the world can do.

It's a little like our investment situation when we transferred over to insurance. We don't build the business around it, but we are ready when the time comes. And Ajit is an asset that no other company in the world has. And we work him, and we actually enjoy a lot talking to each other about these kind of risks because he allows me to think about what the price should be and he'll think about. We don't tell each other at the time, and then I'll name it and then he'll say, have you lost your mind, Warren? He -- and then he'll point something out to me that I've overlooked. It's a lot of fun, and it's made us a lot of money and the shareholders of Berkshire Hathaway are extraordinarily like you can't hire people like Ajit. I mean, you get them once in a lifetime. Charlie?

Charles Thomas Munger
Vice Chairman

I don't think that we help him very much. It's really difficult.

Warren E. Buffett
Chairman, President & CEO

There will be a time when -- I mean, I probably won't be around then, but there will be a time occasionally, just like in financial markets when things are happening in the insurance world and basically, Berkshire will be the only one -- virtually, the only one people turn to and...

Charles Thomas Munger
Vice Chairman

But in the past, Ajit, talking to you has added more than $50 billion to the balance sheet of Berkshire by making these odd-ball calls.

Warren E. Buffett
Chairman, President & CEO

And if he hadn't talked to me, it'd be probably $49.9 billion, but don't want to try -- don't try this at home. I mean...

Charles Thomas Munger
Vice Chairman

Yes. This is -- that doesn't mean it's easy.

Warren E. Buffett
Chairman, President & CEO

No. And it's not very teachable. I mean...

Charles Thomas Munger
Vice Chairman

No, it isn't very teachable, you're right.

Warren E. Buffett
Chairman, President & CEO

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No. It is not something that Berkshire has some secret formula someplace for it. It basically is a very unusual talent with Ajit and...

Charles Thomas Munger
Vice Chairman

We're not holding anything back. It's hard.

Warren E. Buffett
Chairman, President & CEO

Okay. [Jay]?

Unknown Attendee

This question is on Berkshire's relationship with 3G Capital. Kraft Heinz' recent challenges have raised questions about whether Berkshire's partnership with 3G has become a weakness for Berkshire. Warren, what are your thoughts on this? And would Berkshire be open to partnering again with 3G in a major acquisition?

Warren E. Buffett
Chairman, President & CEO

Yes, they are our partners, and we joined them, had a one-page agreement, which I haven't even actually ever really read. I mean, it's -- Jorge Paulo, I mean, is a good friend of mine. I think he's a marvelous human being. And I'm pleased we made -- that we are partners. It's conceivable that something would come up. They have more of a taste for leverage than we do and they probably have more of a taste for paying up, but they also are -- in certain types of situations, they'd be way better operators than we would. I mean, they go into situations that need improvement and they have improved them. But I think both they and we, I know we have -- did underestimate, not what the consumer is doing so much, but what the retailer is and at See's Candy, we sell directly to the consumer but at Kraft Heinz, there are intermediaries. And those intermediaries are trying to make money. We're trying to make money and the brand is our protection against the intermediaries making all the money.

Costco tried to drop Coca-Cola back in I think 2008. And you can't drop Coca-Cola and not disappoint a lot of customers. Snickers bars are the #1 candy that Mars makes them and they've been #1, I think, for 30 or 40 years. And if you walk into a drug store and the guy says I've got -- the Snickers is $0.75 or whatever it might be and I've got this special little bar we make, my wife and I make in the back of the store and it's only $0.50, and it's just as good, you don't buy it. When you're at the -- some other place, the next time you buy the Snickers bar.

So brands are -- can be enormously valuable, but many of the brands are dependent, most of them. GEICO is not. GEICO goes directly to the consumer. If we save the consumer money on insurance, they're going to buy it from us. And our brand -- and we'll spend well over $1.5 billion on advertising this year, and you think, my God, we started this in 1936, and we were saying the same thing then about saving 15% in 15 minutes or something, it was hard -- not exactly the same, but that brand is huge, and we have to come through on the promise we give, which is to save people significant money on insurance, a great many people. That brand is huge, and we're dealing directly with the consumer. And when you're selling Kool-Aid or ketchup or Heinz 57 sauce or something, you are going through a channel and they would -- I guess, praise was used earlier today. Our gross margin is their opportunity, and we think that the -- the [indiscernible] -- the consumer is going to force them to have our product and that we will get the gross margin and then that fight, that tension has increased in the last 5 years. And I think it's likely to increase in the next 5 or 10 years. And Charlie is the Director of a company that was -- caused me to think a lot about that subject. Charlie?

Charles Thomas Munger
Vice Chairman

Well, what I think is interesting about the 3G situation, there's a long series of transactions that work very well. And finally, there was one transaction at the end that didn't work so well. That is a very normal

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outcome of success in a big place with a lot of young men who want to get rich quick, and it just happens again and again. And it's -- you want to be careful. It's so much easier to take the good ideas and push them but write your excess.

Warren E. Buffett
Chairman, President & CEO

Yes. No idea is good at any price and that -- the price element is probably something that we will read more about generally than our partners, but we are their partners in the -- in Kraft Heinz. And it's not at all inconceivable that we could be partners in some other transaction in the future. Okay. Station 8.

Unknown Attendee

Warren and Charlie, consumer tastes are changing. I think if we asked how many people here in the arena have eaten Velveeta cheese in the last year or so, there'd be only a small handful, maybe more for jello. 3G's playbook of cutting R&D looks to have stifled new product development amidst changing preferences. So here's my question. Why continue to hold when the moat appears to be dry or do you think it is filling back up?

Charles Thomas Munger
Vice Chairman

Well, I don't think the problem was that they cut research or something. I think the problem was they paid a little too much for the last acquisition.

Warren E. Buffett
Chairman, President & CEO

Yes, jello, I can't give you the exact figure. There are certain brands that may be declining 2% a year, 3% a year and unit sales. And there's others that are growing 1% or 2%. They're not dramatic changes taking place at all. I mean, Kraft Heinz is earning more money than Kraft and Heinz were earning 6 or 7 years ago. I mean -- and the products are being used in a huge way. Now it's true that certain -- that there are always trends going for some of you, but they have not fallen apart remotely. And they have widened the margin somewhat, but it is tougher in terms of the margin and the price negotiations, probably to go through the -- to the actual consumer that has become a somewhat tougher passageway for all food companies than it was 10 years ago. It's still a terrific business.

I mean, you mentioned jello or Velveeta. Charlie works at my grandfather's grocery store in 1940. I worked there in '41. And they were buying those products then; they buy the products now. The margins are still very good. They earn terrific returns on invested capital, but we paid too much in the case of Kraft. But you can pay too much for a growing brand. I mean, you can pay way too much for a growing brand, probably it will be easier to be sucked into that. So I don't -- I basically don't worry about the brands. Certain of them are very strong and certain number, they're declining a bit, but that was the case 10 years ago. It will be the case 10 years from now. It's not -- there's nothing dramatic happening in that.

Okay. We'll take one more, and then we'll break for lunch. Andrew?

Unknown Attendee

Thank you, Warren. Question on technology and the company's biggest holding now. Given that Apple is now our largest holding, tell us more about your thinking? What do you think about the regulatory challenges the company faces, for example? Spotify has filed a complaint against Apple in Europe on antitrust grounds. Elizabeth Warren has proposed ending Apple's control over the App Store, which would impact the company's strategy to increase its services businesses. Are these criticisms fair?

Warren E. Buffett
Chairman, President & CEO

Well, again, we're not the -- I will tell you that all of the points you've made, I'm aware of and I like our Apple holdings very much. I mean, it is our largest holdings. And actually, what hurts in the case of Apple

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is that the stock has gone up. And we [bunch right there] at the stock. And I'm not proposing anything be done about it, but we'd much have -- better have the stock at a lower price, so we could buy more stock. And importantly, if Apple and they authored another -- authorized another $75 billion the other day, but let's say, they're going to spend $100 billion in buying in their stock in the next 3 years. It's very simple. If they buy it at 200, they're going to get 500 million shares. They've got $4 billion 600 million on now and so they'll end up with $4.1 billion under that circumstance. If they're buying it at 150, they'd buy in 667 million shares. And instead of owning what we would own in the first case, we'd now -- the divisor would be less than $4 billion, and we'd own a greater percentage of it.

So in effect, a major portion of earnings, at least possibly, has been -- it's at least been authorized, will be spent in terms of increasing our ownership without us paying out a dime, which I love for a business -- a wonderful business. And the recent development, well, the stock has moved up substantially, actually hurts Berkshire over time. We still do -- my opinion, we'll do fine, but we're not going to get into -- we're not going to dissect our expectations about Apple for people who may be buying it against us tomorrow or something to start with. We don't give away investment advice on that for nothing. But we have -- all the things you've mentioned, obviously, we know about. We know some -- we've got a whole bunch of other variables that we crank into it, and we like the fact that it's our largest holding. Charlie?

Charles Thomas Munger
Vice Chairman

Well, in my family, the people have Apple phones. It's the last thing, they'll give up.

Warren E. Buffett
Chairman, President & CEO

It's not a bad item to have. And the other thing we won't give up is lunch. And we'll now adjourn, and we'll reconvene at 1:00 or thereabouts. I'll see you a little later.

[Break]

And it's looks like we're ready for Gregg.

Greggory Warren
Morningstar Inc., Research Division

Good morning, Charlie. I have a follow-up on the railroad business. By nearly all measures, BNSF had a solid year in 2018. Full year revenue growth of 11.5% was better than the 7.5% top line growth in Union Pacific, which is BNSF's largest -- direct competitor came up with, with Burlington Northern seeing both larger increases in average revenue per car unit and total volumes than its closest peer. Even so, Burlington Northern, once again, fell short of Union Pacific when it came to profitability. With its operating ratio declining 130 basis points to 66.9%, while Union Pacific's ratio fell only 120 basis points to 62.7%, further cementing the spread that exists between the 2 companies' margins at more than 400 basis points.

Can you explain what is driving the difference in profitability between Burlington Northern and Union Pacific, as theoretically, we should not see that wide of a spread between 2 similar sized companies that are basically competing for the same business with the same customers in the western half of the United States? And while you noted that Burlington Northern is in a wait-and-see mode with regards to Precision Scheduled Railroading, we've kind of heard the same line historically with regards to GEICO's approach to telematics? And what worries me here is that the potential now exists for a much wider gap to emerge between profitability levels at Burlington Northern and Union Pacific, which has recently adopted a version of PSR, some of which Union Pacific could eventually use to get more price-competitive?

Charles Thomas Munger
Vice Chairman

Well, Warren knows the answer to that a lot better than I do. My guess is that they work a little harder than we do at building the rates. But Warren, you answer that.

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Warren E. Buffett
Chairman, President & CEO

Yes. Well, we -- it's true that we receive the lowest ton-mile revenue of any of the 6 big railroads in North America, and there's some explanation for that, obviously, a significant explanation in the particular types of hauls we have and that sort of thing. We do have longer hauls generally. But the answer, Union Pacific's profit margin, they talk about operating ratios but that goes back to the Interstate Commerce Commission. So it's really profit margin, pretax, pre-interest profit margin. And Union Pacific, at one time, probably 15 or maybe a little more years ago, they really went off the track, so to speak, but they have done a very good job of getting -- well, they got a lot of underpriced coal contracts worked out, as did we, but they've also -- and they've done a very good job on expenses. And there is no fundamental reason why the BNSF franchise -- I always like the western railroads better than the eastern, not by a dramatic margin, but I think the west will do better in terms of ton miles over time than the eastern roads. And we've got some great routes, some of which were under water in March for a while and we pay a lot of attention to what's going on at the Union Pacific as we should. And the future -- it's not like we're losing business to anybody, but we -- they have been operating more efficiently in effect than we have during the last few years, and I could say, we take notice of it.

They've cut a lot of people, I mean, right here at Omaha. And we'll see what that does in terms of passenger side -- or in terms of shipper satisfaction, but we are measuring ourselves very carefully against what they do, and if changes are needed, we'll do them. And so we've got a wonderful asset in that business and when I bought it, I said it's for 100 years, it's for a lot more than 100 years. It is a very, very fundamental business, and we've got a wonderful franchise. And we should have margins comparable to other railroads. Charlie?

Charles Thomas Munger
Vice Chairman

I don't know much about this.

Warren E. Buffett
Chairman, President & CEO

You don't? Station 9.

Robert H. Lee

Warren and Charlie. My name is Rob Lee from Vancouver, Canada. Could you please share with us what do you value the most in life now? Thank you.

Charles Thomas Munger
Vice Chairman

We'd like to have a little more of it.

Warren E. Buffett
Chairman, President & CEO

It's the 2 things you can't buy, time and love, and that -- I value those for a long time. And I've been very, very, very lucky in life in being able to control my own time to extreme degrees. Charlie's always valued that, too. That's why we really wanted to have money was so we could do what we damn pleased in our life. It wasn't 6 houses or boats or anything, but -- well, Charlie's got a boat, but doesn't do his time much good. But time is valuable, and that's -- and we are very, very lucky that we are in jobs where physical ability doesn't make any difference, and we've got the perfect job for a couple of guys with aging bodies, and we get to do what we love to do every day.

I mean, like literally I could do anything that money could buy pretty much, and I'm having more fun doing what I do than doing anything else, and Charlie is designing dormitories. And, I mean, he's got an interesting life, and he brings a lot to it. He still reads more books in a week than I get done in a month, and he remembers what he reads. And so we've got it very good. But we don't have unlimited time, and

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whatever we do we to do to free up the time to what we like to do, and we both maximize that in our lives, we do.

Charles Thomas Munger
Vice Chairman

Anybody is lucky if he gets over 40, spends his time at what he likes doing. That's a blessing.

Warren E. Buffett
Chairman, President & CEO

Yes. We've had so much good luck in life. It sort of blows your mind, starting with being born in the United States and Canada would be fine, too, incidentally, I don't want to offend anybody. Okay. Carol?

Carol Loomis

This question is from Bryan Neel who writes from the Mayo Clinic Education site. Berkshire owns approximately $200 billion in publicly traded stocks. I appreciate the disclosure of Berkshire's holdings, but I am disappointed by the lack of specific performance information. Since investing in publicly-owned stocks is so much a part of Berkshire's business, why do you not tell us every year how our portfolio performed?

Warren E. Buffett
Chairman, President & CEO

Obviously, it could be calculated fairly easily, and it's about 40% of Berkshire's value, but 60% is the businesses. And if you look at the top 10 stocks, I would guess you're down to where beyond those 10 stocks, you're talking about less than -- probably less than 10% of Berkshire's value.

So I -- again, we're not in the business of explaining why we own a stock. We're not looking for people to compete to buy it. We have a portfolio of companies where, I would say, that of that $200 billion-or-so, at least $150 billion of them, are buying in their stock and increasing our interest every year. And why in the world should we want to tell a whole bunch of people to go out and buy those stocks so that we end up paying or the company on our behalf ends up paying more money for them? I mean people get very happy when their stocks go up. But if we're going to own whatever, whether it's the Bank of America, whether it's Apple, whether it's any of the bigger holdings, we will do considerably better in the next 10 years if their stocks do terribly during certain periods. And if they buy lots of stock and it's just exactly like buying it ourselves, except we're using their -- they're using our money, but it's all elementary.

And why in the world would we want to go out and tell the world that these stocks should go up so that maybe they can sell or do something when it costs us money? And we're not going to be able to move in and out of the stocks to our advantage. So our holdings are filed quarterly, our domestic holdings, as it was pointed out earlier, filed quarterly, but we would rather not tell the world what we own any more than we'd like to tell them what our strategy is at NetJets or what we're going to do at Lubrizol, and what we're working on the way of better advances and additives or whatever it may be or where we plan to build a new store for the furniture market or something, that's proprietary information. And we have to disclose a certain amount, but we're certainly not going to be touting the stocks, too.

In terms of calculating our performance, you can take the top 10 or 12 stocks and anybody can make the calculation. I mean, at the end of the year, The Wall Street Journal runs, and all the papers run something where it says a year-to-date performance or something of the sorts. So that's a simple calculation. Charlie?

Charles Thomas Munger
Vice Chairman

I've got nothing to add to that.

Warren E. Buffett
Chairman, President & CEO

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Okay. Jonathan.

Jonathan Brandt

No one has ever asked a question about FlightSafety, but perhaps this year, it's somewhat topical given the 737 MAX controversy. The New York Times spoke to engineers who said that Boeing explicitly designed the MAX in a manner that allowed airline customers to avoid paying for simulators to train their pilots. Do you expect the worldwide regulatory and commercial response to the MAX's problems to result in increased demand for FlightSafety simulators? And could you please more generally discuss FlightSafety's competitive position and growth prospects?

Warren E. Buffett
Chairman, President & CEO

Yes. Well, FlightSafety is -- they're a specialty with the -- with corporate pilots. They train our NetJets pilots, for example. They have a major facility with simulators for that. I don't think what's happened with the 737 MAX will have any particular effect. I mean we have -- I don't know how many of the Fortune 100 companies that we do business with, but it's a very significant percentage. And they train their pilots with FlightSafety because we've got the talent and the simulators like nobody else has for that business. And Charlie, might -- didn't you have that friend of yours that was trying to get Al Ueltschi to pass them when he shouldn't?

Charles Thomas Munger
Vice Chairman

Who?

Warren E. Buffett
Chairman, President & CEO

You remember that story of your friend that wanted to have FlightSafety accredited?

Charles Thomas Munger
Vice Chairman

Oh, yes.

Warren E. Buffett
Chairman, President & CEO

Why don't you tell them? I mean, Al Ueltschi, who started FlightSafety with a few thousand dollars and a little visual simulator or whatever it may have been at LaGuardia, I mean, he really cared about saving lives and he made a lot of money in the process. But he was dedicated throughout his lifetime to truly train better pilots and reduce the chance of accidents, dramatically. It was a mission with him and that spirit still continues. And as I say, we've got a -- I can't tell you the percentages, I don't know, but I know it's very high of certainly the corporate business. We have government business, we have some airline business, all of that, but I don't expect any great change in the flight training business, but tell them about your friend, Charlie.

Charles Thomas Munger
Vice Chairman

Well, of course, people pass those tests with flying colors and some of them just barely pass. And one of my friends just barely passed, and they called me and told me. It's an art in business.

Warren E. Buffett
Chairman, President & CEO

FlightSafety would not...

Charles Thomas Munger
Vice Chairman

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They care about everything. They want [indiscernible].

Warren E. Buffett
Chairman, President & CEO

They care. They care. And those simulators can -- they can cost over $10 million. I mean, just -- and they're dedicated, obviously, to a given model of plane.

You might find it interesting. At NetJets, our pilots only fly one model. I mean, most charters and all those, I'm sure they can -- and this is why. They could fly other models and all of that, but we just want them -- we want them to be flying one model, and we give them a maximum amount of training annually and it's -- when I bought the company for Berkshire in I think it was 1998 or thereabouts, the thought obviously bothered me that I would have a significant percentage of the people would be friends of mine that were using it, and you'd hate to have anything happen. I use it. My family uses it. Our managers use it. And there's nobody that cares more about safety, but I don't see -- the NetJets, it's a first-class operation and…

Charles Thomas Munger
Vice Chairman

It never killed a passenger. I had one pilot who hit a glider at 16,000 feet, and it was kind of a difficult landing. It wasn't -- they never killed a -- it was a woman pilot, yes.

Warren E. Buffett
Chairman, President & CEO

And she was flying the next day. The copilot was kind of taken out of operation, but this woman ended up almost with the control panel in her lap because this guy had turned off his battery and hit one of our hawkers. And she had one shot at the runway, and she brought it in, and we've had some remarkable training and pilots there. You should ask for her if you're flying on NetJets. Station 10?

Unknown Attendee

Mr. Buffett and Mr. Munger, hi, my name is [Daphne]. I'm from New York, and I'm 9 years old. And I'm excited to be at the Berkshire meeting, and this is my third year.

Warren E. Buffett
Chairman, President & CEO

Wow. You should be rich by now.

Unknown Attendee

You have often said that investors are well-served by identifying businesses with a wide moat, where the castle behind the moat is run by a king or queen who can be trusted to make good decisions. In the past, you have applied this advice by investing in businesses with world-class strong brands, such as Coke, American Express and See's as well as media companies that has helped these brands protect and widen their moats, such as Cap Cities, ABC and the Washington Post.

In the past, you've also generally avoided investing in technology companies pointing out how quickly technology changes and how hard it is to build a circle of confidence in it.

Today, we seem to be in a world where some of the most dominant companies in the world are technology companies, and we have built powerful platforms such as Amazon, Google, Facebook and Microsoft in America, and Alibaba and Tencent in China. Each companies all have wide moats, strong brands and are led by brilliant entrepreneurs.

Warren E. Buffett
Chairman, President & CEO

That's good.

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Unknown Attendee

My question to you is this: if Berkshire is to honor its tradition of investing in wide moats and strong brands, and especially in companies that are also capital efficient, do you think that Berkshire needs to explain its investing in length to include more of these leading technology platforms? In other words, do you believe that you need to adapt your model of wide moats and strong brands to embrace, not avoid, technology?

Charles Thomas Munger
Vice Chairman

I think the answer is maybe.

Warren E. Buffett
Chairman, President & CEO

I think the answer is to put her on the Board and it will bring down the average age enormously. We won't get criticized as much. The -- you're exactly right in that we do like moats. And we used to be able to identify them in a newspaper that was the only newspaper in town or in TV stations where we held the dominant positions and where we felt the product was underpriced in terms of advertising it. We saw it in brands sometimes, and it is true that in the tech world, if you can build a moat, it can be incredibly valuable.

I've not felt the confidence that I was the best one to judge that in many cases. It wasn't hard to figure out who was winning at any given time or what their business was about, but there were a huge number of people that knew more about the game than I did. And we don't want to try and win in a game we don't understand. We may hire people, such as Ted and Todd, that are better at understanding certain areas of investing than I am or maybe even Charlie is, but your -- the principles haven't changed. You're right that some of the old ones have lost their moat, and you're right that there are going to be companies in the future that have them that will be enormously valuable. And we hopefully can identify one every now and then, but we won't -- we'll still stay within where we think we know what we're doing, and obviously, we'll make mistakes even within that area. But we won't to go into something because somebody else tells us it's a good thing to do. I mean, we are not going to subcontract your money to somebody else's judgment. You can take your money and follow somebody else's judgment, but we're not in the business of thinking that if we hire 10 people with specialties in this area or that, that it will lead to superior investment results. And we do worry that we may -- we could blow a lot of money that way.

So we'll do our best to enlarge the circle of confidence of the people at Berkshire, so that we don't miss so many, but we'll miss a lot in the future, we missed a lot in the past. The main thing to do is to find things where our batting average is going to be high. And if we miss the biggest ones, that really doesn't bother us as long as the things we do with money work out okay. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think we've still got an awful lot of companies with big moats and a lot of them are very -- and some are industrial brands who are just incredibly strong in the niches that we're in. So you as Berkshire's shareholders don't have anything to worry about. We're just one big [burner of asset] [indiscernible] or anything like that, but we have not covered ourselves with glory in the new fields.

Warren E. Buffett
Chairman, President & CEO

Yes. We won't end up all in buggy whips over anything. But it's a very good question, and it's what we focus on all of the time and I hope…

Charles Thomas Munger
Vice Chairman

We're trying to improve.

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Warren E. Buffett
Chairman, President & CEO

And we hope we see you back here for your fourth, next year. Becky?

Becky Quick

This question comes from [Stuart Boyd], who's a chemical engineer from Australia. He says currently Berkshire would be incredibly difficult for an activist investor to target because, number one, Warren, your ownership stake is large; number two, shareholders appreciate the business is more valuable operating under the Berkshire umbrella rather than being sold off in pieces; and number three, the sheer size or market capitalization of Berkshire is an entry barrier for most activist investors. Warren and Charlie, after your ownership has been completely distributed, will Berkshire be more vulnerable to activist investors? I'm guessing this isn't something that keeps you up at night, but thought it was worth asking.

Charles Thomas Munger
Vice Chairman

No, it's going to happen quite a few decades after my death. I don't think I'll be bothered much by it.

Warren E. Buffett
Chairman, President & CEO

Well, anything can happen. It's a low probability. It can't happen for a lot of years, in terms of the way my stock gets distributed and in terms of the way other stock is held. But in the end, Berkshire should prove itself over time. I mean there are no perpetuities, and it needs to deserve to be continued in its present form. And it has a lot of attributes that are maximized by being in one entity, which people don't fully understand. They think if you spin off something that would command a high P/E, that, therefore, value has been unlocked, which is totally nonsense. I mean, it's already built in. And one day out, you might have an extra 3% or 5% in price, but over the years, we want to keep the wonderful businesses.

But eventually, I think the culture will remain one of a kind. I think that we will be able to do things other people can't do. I think that the advantages of having them in one spot will likely be significant over time. And if that happens, no activist is going to take it over. And if the model doesn't work for some reason over a long period of time, then something else should happen. Charlie?

Charles Thomas Munger
Vice Chairman

Nothing more.

Warren E. Buffett
Chairman, President & CEO

Okay. Jay.

Jay H. Gelb
Barclays Bank PLC, Research Division

This question is on GEICO. Progressive is gaining the most market share among the major auto insurers based on its presence in the direct and independent agency channels as well as now bundling its auto and homeowners insurance coverage. How does GEICO plan on responding to competitive threats so that it can retain its place as the second largest auto insurer? I was hoping we could also hear on this topic from Ajit or GEICO'S management?

Warren E. Buffett
Chairman, President & CEO

Okay. The Progressive is a very, very well-run business. GEICO is a very well-run business, and I think they will for a long time. These are 2 companies that the rest of the auto insurance industry has trouble not losing share to, but there's, I think -- I've always thought for a long, long time, Progressive has been

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very well-run. They have an appetite for growth. Sometimes they copy us a little. Sometimes we copy them a little. And I think that will be true 5 years from now and 10 years from now. And we sell them substantial amounts of homeowners insurance. We have an agency arrangement with that. We were in the business of writing it ourselves until Hurricane Andrew, when a decision was made. We didn't control it then, but the decision was made that the homeowners, essentially, you could lose as much in 1 year as you made in the previous 25 years, and the flow isn't as large. So we became a company that placed our customer's desire for homeowners with several other large and solid organizations.

The big thing is auto insurance. And we grew in the first quarter about 340,000 policies net, which will look quite good compared to anybody but Progressive, and that was quite a bit more than last year, but not as good as 2 years ago. And the combined ratio -- the profit margin was in the 9-point area. So I feel extremely good about GEICO. I mean, what has been built there by Tony and his people was terrific, but I would feel fine if we don't own any Progressive, but I think that Progressive is an excellent company, and we will watch what they do and they will watch what we do. And we will see 5 years from now or 10 years from now, which one of us passes State Farm first. Charlie?

Charles Thomas Munger
Vice Chairman

Oh and Ajit, would you like?

Ajit Jain
Vice Chairman of Insurance Operations & Director

Well, the underwriting profit is really a function of 2 major variables. One is the expense ratio and the other is the loss ratio, without getting too technical. GEICO has a significant advantage over Progressive when it comes to the expense ratio to the extent of about 7 points or so. On the loss ratio side, Progressive does a much better job than GEICO does. They have, I think, about a 12 point advantage over GEICO. So net-net, Progressive is ahead by about 5 points.

GEICO is very aware of this disadvantage on the loss ratio that they are suffering, and they are very focused in trying to bridge that gap as quickly as they can. They have a few projects in place. And sometimes, GEICO is ahead of Progressive. Right now, Progressive is ahead of GEICO, but I'm hopeful they'll catch up on the loss ratio side and maintain the expense ratio advantage as well. Thank you.

Warren E. Buffett
Chairman, President & CEO

GEICO has gained market share essentially. I'd have to look at the figures for sure, but virtually every year since Tony took over. And I would bet significant money that GEICO increases its market share in the next 5 years and I think it will, for sure, this year. And so, it is a terrific business, and Progressive is a terrific business. And well, as Ajit says, we've got the advantage in expenses and we will have an advantage in expenses. And then the question is, are we -- they have a very sophisticated way of pricing business, and the question is whether we give some of that 5 points back or 6 points back in terms of loss ratio. And we are working very hard at that, but I'm sure they're working very hard to improve their system. So it's a -- to some extent, it's a 2 horse race, and we've got a very good horse.

Charles Thomas Munger
Vice Chairman

But Warren, in the nature of things, every once in a while, somebody's a little better at something than we are.

Warren E. Buffett
Chairman, President & CEO

You've noticed.

Charles Thomas Munger
Vice Chairman

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Yes, I've noticed.

Warren E. Buffett
Chairman, President & CEO

But yes, I'd settle for second place in a lot of the businesses. Okay, Station 11.

Feroz Qayyum

Mr. Buffett and Mr. Munger, thank you for taking my question. My name is Feroz Qayyum, and I'm from Mississauga in Canada and now live in New York. My question is how to best emulate your success in building your circle of competence. Given the environment today in investing is a lot more competitive than when you started out, what would you do differently, if anything at all, when building your circle? Would you still build a very broad, generalist framework? Or would you build a much deeper but narrower focus say on industries, markets or even a country? And if so, which ones would interest you? Thank you.

Warren E. Buffett
Chairman, President & CEO

Yes, well, you're right. There's a -- it's much more competitive now than when I started and you would -- when I started, I literally could take the Moody's industrial manual and the Moody's Banks of Financial Manual and I could go through page by page and I'd at least run my eyes over every company and think about which ones I might think more about. It's simple. I would just do a lot -- a whole lot of reading. I'd try and learn as much as I could about as many businesses and I would try to figure out which ones I really had some important knowledge and understanding that was probably different than overwhelmingly most of my competitors. And I would also try and figure out which ones I didn't understand. And I would focus on having as big a circle as I could have and also focus on being as realistic as I could about where the perimeters of my circle of competence were.

I knew when I met Lorimer Davidson in January of 1951, I could get insurance. I mean, what he said made so much sense to me in the 3 or 4 hours I spent with him on that Saturday. So I dug into it and I could understand it. My mind worked well in that respect. I didn't think I could understand retailing. All I'd done was worked for the same grocery store that Charlie had and neither one of us learned that much about retailing except it was harder work than we liked. And you've got to do the same thing, and you've got way more competition now.

But if you get to know even about a relatively small area more than other people do and you don't feel a compulsion to act too often, you just wait 'til the odds are strongly in your favor, it's still a very interesting game. It's harder than it used to be. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think the great strategy for the great mass of humanity is to specialize. Nobody wants to go to a doctor that's half proctologist and half dentist. And well -- and so the ordinary way to succeed is to narrowly specialize. Warren and I really didn't do that, and we didn't because we prefer the other type of activity, but I don't think we can recommend it to other people.

Warren E. Buffett
Chairman, President & CEO

Yes, and a little more treasure hunting in our day, and it was easy to spot the treasure.

Charles Thomas Munger
Vice Chairman

We made it work, but it was kind of a lucky thing. It's not the standard way to go.

Warren E. Buffett
Chairman, President & CEO

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The business, at least I best understood, actually was insurance. I mean, I -- and I had very little competition. And I would -- if I went to the insurance department in Harrisburg, Pennsylvania. I remember one time I drove there just to check on some Pennsylvania company, and this is when you couldn't get all this information on the Internet. And I went in and I asked about some company and the guy said, "You're the first one that's ever asked about that company" and there wasn't a lot then. I went over to the Standard & Poor's library on Houston Street, I guess they call it, and I would go up there and ask for all this obscure information, and there wasn't anybody sitting around there. They had a bunch of tables that you could sit and examine things through. And so it was -- there was less competition. But if you know even one thing very well, it will give you an edge at some point. Poor Tom Watson Senior said at IBM "I'm no genius, but I'm smarter than spots, and I stay around those spots" and that's basically what Charlie and I try to do, and I think that's probably what you can do, but you'll find that those spots...

Charles Thomas Munger
Vice Chairman

Yes, we did it in several fields. That's hard.

Warren E. Buffett
Chairman, President & CEO

And we got our head handed to us a few times, too. Okay. Andrew?

Unknown Attendee

Thanks, Warren. Governance question from a shareholder: Larry Fink of BlackRock has predicted that in the near future, all investors will be using ESG, Environmental Social Governance Metrics, to help determine the value of a company. I'm worried we don't score well on everything from climate to diversity to inclusion. How well do you think Berkshire measures up on those metrics? And are they valuable metrics?

Warren E. Buffett
Chairman, President & CEO

I think in reality, we measure up well, but we don't participate in preparing reports for anybody that asks about it. And we have this idea that even though all shareholders are equal, we sort of -- we prefer individual shareholders. We actually prefer people we know as co-owners, and we don't want to be preparing a lot of reports and asking 60 subsidiaries each to do something, where they'll set up a team and they'll mail things to headquarters, and then we'll supply them to somebody who if our stock goes up, somebody's probably going to sell it anyway. We want our managers to do the right things. We give them enormous latitude to do that, and I think that our batting average really is quite good.

You saw the -- in the movie, we talked about having 100% of the electricity we sell in Iowa will come from essentially wind generation. Now that doesn't mean that we get to do it 24 hours a day. We sell some and we buy it. But essentially, we will be creating as much wind energy as all of our customers use in electricity. There's one competitive -- there's one other utility, electric utility, that's about our size and roughly our size in Iowa, and they have practically no wind resources, and the wind blows where they exist too, but we have -- we will have that 100%. As a matter of fact, it's a moving target because we do so well, partly. We do so well on wind generation that a number of the high-tech companies want to locate in Iowa and get clean energy from us at very low prices. And therefore, the moving target becomes our growth in customers in that area. But we're not going to put out a -- we're not going to spend the time of the people of Berkshire Hathaway Energy responding to questionnaires or trying to score better with somebody that is working on that. It's just we trust our managers, and I think the performance is at least decent, and we keep expenses and needless reporting down to a minimum at Berkshire.

We do not get -- I mentioned this in the annual report, I don't -- I can't imagine another company like it, but here we are, a $500 billion of market capitalization, we do not have a consolidated P&L monthly. We don't need it. Now I can't imagine any other organization doing that, but we don't need it, and we're not going to tie up resources, people resources doing things we don't need to do just because it's the sort of standard procedure in corporate America. And corporate America is very worried about -- in general,

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they're very worried about whether somebody's going to upset their applecart and with activists and everything. So they want to be very sure that every shareholder is happy on issues like that. And in the end, fortunately, we don't have to worry about that, so we don't have to run up a lot of expenses doing things that don't actually let us run the business better. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think at Berkshire, the environmental stuff is done one level down from us. And I think Greg Abel is just terrific at it. And so I think this is all very well. When it gets to so-called best corporate practices, I think the people who talk about them, they will really know what the best practices are. They just know what they think are the best practices, and they determine that based on what will sell, not what will work. And so I like our way of doing things better than theirs, and I hope to God we never follow their best practices.

Warren E. Buffett
Chairman, President & CEO

I'd like to point out one thing on independent directors. I mean, I have been on 20 public company corporate boards, not counting any Berkshire subsidiaries. So I've seen a lot of corporate boards operate. And the independent directors, in many cases, are the least independent. I mean, if the income you receive as a corporate director, which typically may be around $250,000 a year now, if that's an important part of your income, and you hope that some other corporation calls the CEO and says how's so and so as a director and the current CEO -- your CEO says, "Oh, he's fine. Never raises any problems." And then, you get on another board at $250,000 and that's an important part, how in the world is that independent? I mean, it's -- I really -- just an observation. I can't recall particularly any independent director where their income was -- from the board was important to them. I can't recall them ever doing anything in board meetings or committee meetings that actually was counter to the interest. You know what, they put them on the comp committee. I mean, they're just not going to upset the apple cart because what they're -- and I'd probably behave the same way in the same position. I mean, if $250,000 a year is important to you, why in the hell would you behave in a way that's going to cause your CEO to say to the next CEO and say, "This guy acts up a little bit too much, you'd really better get somebody else." It's the way it works, but they've got...

Charles Thomas Munger
Vice Chairman

I think it works a little worse than Warren's telling you.

Warren E. Buffett
Chairman, President & CEO

Yes, Charlie and I...

Charles Thomas Munger
Vice Chairman

It's really awful.

Warren E. Buffett
Chairman, President & CEO

It was awful. I mean, we...

Charles Thomas Munger
Vice Chairman

And earlier, Warren and I are -- we occupy the niche while sitting very well ourselves. So we don't need any more of it.

Warren E. Buffett

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Chairman, President & CEO

Charlie and I were on 1 board -- well, I was on 1 board actually a long time ago where we owned a very significant percentage of the company. And the rest of the board was almost exclusively customers of the company, but not owners. They had absolutely token holdings. And at one point, we were looking at something where a tax decision was being made in terms of distribution of some securities, and it was a lot of money was involved. And one of the other directors said, "Well, let's just swallow the tax." Well, his swallowing amounted to about $15 or something, I don't know. I said, let's parse this sentence out. Let's swallow the tax. That's let us swallow the tax. So who wants to swallow an equal amount? To me -- it's -- you don't get invited to be on boards if you belch too often at the dinner table.

Charles Thomas Munger
Vice Chairman

Well, at Blue Chip Stamps, we had a director who said, "I don't see why you guys should get to be so important just because you own all the shares."

Warren E. Buffett
Chairman, President & CEO

Yes. Charlie and I used to have to cool off after the Blue Chips Stamps meetings because we and Rick Guerin owned what percent probably, call it?

Charles Thomas Munger
Vice Chairman

What, 50%.

Warren E. Buffett
Chairman, President & CEO

Yes, 50%. And they'd appointed all the -- it came...

Charles Thomas Munger
Vice Chairman

They were all members of the rotary club.

Warren E. Buffett
Chairman, President & CEO

It came out of a government settlement or something. And it was not an ideal form of decision making. And they just had a different calculus in their mind. And I can understand it, but I'm not going to replicate it. Okay. Greg?

Unknown Attendee

Warren and Charlie, U.S. electricity as a band has flat lined during the past decade, but could potentially pick up over the next decade with 3 emerging sources of demand: electric vehicle charging; data centers; and cannabis cultivation expected to account for more than 5% of total U.S. electricity demand.

Utilities will have to work hard to benefit from this new demand though, much of which is likely to accrue to states in the South Atlantic, Central West and mountain regions, with the greatest benefit going to firms that invest in grid expansion, smart networks, reliability and renewable energy.

While Berkshire Energy has been aggressive with its capital investments and already has some of the lowest electricity rates in the areas where it competes, it seems like the firm is winding down its annual spending at a time when more might actually be required, with annual spending expected to fall from around $6 billion on average annually to around $4 billion in 2021, with 2/3 of that spending being more maintenance-driven than growth.

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Is there any one area where you feel Berkshire Energy might need to commit more capital over the next decade to ensure that it captures its future expected demand growth, much as it already has in -- with wind power in Western Iowa, which is now populated with a lot of data centers? And for territories where demand growth is expected to be the strongest, but where Berkshire does not have a presence, are there any avenues aside from acquisitions for the company to put capital to work?

Warren E. Buffett
Chairman, President & CEO

I'm going to throw that over to Ajit in just a second, but I will tell you that we have 3 owners of Berkshire Hathaway Energy. We are the 91% owner. And there are no 3 owners that are more interested in pouring money into sensible deals within the utility industry or are better situated in terms of the people we have to maximize any opportunities.

We have never had a penny of dividends in whatever it is, close to 20 years of owning MidAmerican Energy and other utility companies pay high dividends. They just don't have the capital appetite essentially that we do. So it's just a question of finding sensible projects. And I would say that there's no group that is as smart about it, as motivated about it as our group. And with that, I'll turn it over to Greg.

Charles Thomas Munger
Vice Chairman

In short, we're about as good as you can get. And you should worry about something else.

Warren E. Buffett
Chairman, President & CEO

Yes. But Greg, could you stand up and talk about?. We really hope to spend a lot of money in energy.

Gregory Edward Abel
Vice Chairman of Non Insurance Business Operations & Director

Yes, yes. Afternoon. Yes, Greg, you touched on it, a couple critical areas as we go forward is to look realistically in the '21, 2022 time frame because as you've touched on, we've got a great portfolio as we finish out 2019, 2020, and it's really been focused on building the renewable energy projects in Iowa, expanding the grid. But equally, we do have those opportunities in our other utilities.

The footprint in Iowa realistically is getting pretty full. As we had 100% renewables, Warren touched on it, every time we get a new data center, that means we can build another 300 megawatts of renewables. We'll continue to do that. But when you look at PacifiCorp, where we serve 6 states in the Northwest, we really just embarked on an expansion program there. The first part was to build significant transmission to expand the grid and then start to build renewables. But just to give you some perspective of the regulation that exists in place, we started that project in 2008. And we're realistically building the first 1/3 of it. But we do have the planning in place for the second phase and the third phase and that's what you'll see coming into place in 2021 and '23. And the reality is we'll continue to do that in NV Energy with really again the focus being on both grid expansion so we can move the resources and then supplementing it with renewables.

So it's exactly what you've touched on, and we haven't identified the specific projects yet. So we never put them in our capital forecasts that we disclose to folks. But as they firm up, and we know they will go forward, clearly, you'll see some incremental capital. And that's capital we clearly earn on behalf of the Berkshire shareholders as we deploy it. Thank you.

Warren E. Buffett
Chairman, President & CEO

We will put a lot of money into energy. Yes.

Charles Thomas Munger
Vice Chairman

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Yes. We're really in marvelous shape in this department.

Warren E. Buffett
Chairman, President & CEO

Incidentally, and Walter Scott, I mean, he gets excited looking at all these projects, and goes out and visit them, he has -- he knows way more about the business than -- and he's forgotten more about it than I'll ever know, but we've got a great partnership. We've got unlimited capital. We've got -- we'll continue to have it and there's needs for huge capital in the industry. So I think 10 years from now or 20 years from now, we'll be -- our record will be looked at and there'll be nothing like it in the energy business.

Charles Thomas Munger
Vice Chairman

Greg, is there anybody ahead of where we are in Iowa in terms of energy?

Gregory Edward Abel
Vice Chairman of Non Insurance Business Operations & Director

Charlie, there's realistically no-one ahead of us in the U.S. let alone in Iowa. When you look at our -- the amount of energy we produce relative to what our customers consume, we really lead -- do lead the nation in Iowa.

Charles Thomas Munger
Vice Chairman

And our rate's about half that of our main competitor in Iowa.

Gregory Edward Abel
Vice Chairman of Non Insurance Business Operations & Director

Exactly. We're right in that range.

Warren E. Buffett
Chairman, President & CEO

If this isn't good enough for you, we can't help you.

Charles Thomas Munger
Vice Chairman

Incidentally, I mean, we sell electricity 5 miles from here. Greg, is that correct?

Gregory Edward Abel
Vice Chairman of Non Insurance Business Operations & Director

Yes, right across the river.

Warren E. Buffett
Chairman, President & CEO

Yes, right across the river. And the wind blows the same and all that sort of thing and the public power district here in Nebraska going back to George Norris has always been a public power state. There's no -- capitalism doesn't exist in the electric utility field in Nebraska. So they've had the advantage of selling tax exempt bonds. We have to sell taxable bonds, which raises cost to some degree. They have a big surplus, which they don't have to pay any dividends on or anything else. And our rates are cheaper than theirs basically. I mean, we're very proud of our utility operation. Carol?

Carol Loomis

Warren, you are a big advocate of index investing and of not trying to time the market. But by your having Berkshire hold such a large amount of cash and T-bills, it seems to me you don't practice what you preach. I'm thinking that a good alternative would be for you to invest most of Berkshire's excess cash in

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a well-diversified index fund until you find an attractive acquisition or buy back stock. Had you done that over the past 15 years all the time keeping the $20 billion cash cushion you want, I estimate that at the end of 2018, the company's $112 billion balance in cash, cash equivalents and short-term investments in T-bills would have instead been worth about $155 billion. The difference between the 2 figures is an opportunity cost equal to more than 12% of Berkshire's current book value. What is your response to what I say? And for I forgot to say the question is from Mike Elzahr who is with The Colony Group located in Boca Raton, Florida. What is your response?

Warren E. Buffett
Chairman, President & CEO

That's a perfectly decent question, and I wouldn't quarrel with the numbers. And I would say that, that is an alternative, for example, that my successor may wish to employ because on balance, I would rather own an index fund than carry treasury bills. I would say that if we had instituted that policy in 2007 or '08, we might have been in a different position in terms of our ability to move late in 2008 or 2009.

So it has certain execution problems with hundreds of billions of dollars than it does if you were having a similar policy with $1 billion or $2 billion or something of the sort. But it's a perfectly -- it's perfectly a rational observation and certainly, looking back on 10 years of a bull market, it really jumps out at you. But I would argue that if you're working with smaller numbers, it would make a lot of sense. And if they're working with large numbers, it might well make sense in the future at Berkshire to operate that way.

We committed $10 billion a week ago and there are conditions under which -- and they're not remote, they're not likely in any given week or month or year, but there are conditions under which we could spend $100 billion, very, very quickly. And if we did, if those conditions existed, if we did, the capital very well deployed and much better than in an index fund. And so we've been -- we're operating on the basis that we will get chances to deploy capital. They will come in clumps in all likelihood. And they will come when other people don't want to allocate capital. Charlie, what do you think about it?

Charles Thomas Munger
Vice Chairman

Well, I plead guilty to being a little more conservative with the cash than other people. And -- but I think that's all right. We get a parole of money and a lot of securities that would have done better than the S&P, the 2020 hindsight. Remember, we had all that extra cash all that period if something had come along in the way of opportunities and so on. I don't think it's a sandbag to be a little strong on cash when you're as big a company as we are.

We don't have to -- I watched Harvard use the last ounce of their cash, including all their prepaid tuition from the parents and plunge it into the market exactly at the wrong moment and make a lot of forward commitments to private equity. And they suffered like 2 or 3 years of absolute agony. We don't want to be like Harvard.

Warren E. Buffett
Chairman, President & CEO

That was timber and a whole bunch of things. Plus timber and, I mean...

Charles Thomas Munger
Vice Chairman

Yes, yes. We're not going to change.

Warren E. Buffett
Chairman, President & CEO

No. We do like having a lot of money to be able to operate very fast and very big. And maybe we won't -- we know we won't get those opportunities frequently. I don't think -- certainly, in the next -- you know in the next 20 or 30 years, I'll be at 2 or 3x when it'll be raining gold and all you have to do is go outside. But we don't know when that will happen. And we have a lot of money to commit. And I would say that if

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you told me I had to either carry short-term treasury bills or have index funds and just let that money be invested in America generally, I would take the index funds. But we still have hopes.

And the one thing you should very definitely understand about Berkshire is that we run the business in a way that we think is consistent with serving shareholders who have virtually all of their net worth in Berkshire. I happen to be in that position myself, but I would do it that way under any circumstances. We have a lot of people who trust us and who really have disproportionate amounts of Berkshire compared to their net worth if you were to follow standard investment procedures then. And we want to make money for everybody, but we want to make very, very sure that we don't lose permanently money from -- for anybody that buys our stock somewhere around intrinsic business value to begin with. We just have an -- we have an aversion of having 1 million plus shareholders, maybe as many as 2 million and having a lot of them ever really lose money if they're willing to stay with us for a while. And we know how people behave if -- when the world generally is upset, and they want to be with something -- I think they want to be with something that they feel is like the rockers and rollers. And we have a real disposition toward that group. Jonathan?

Unknown Attendee

Freddie Mac and Fannie Mae have new financing programs for manufactured home loans that I'm guessing could finally put purchasers of those homes who need mortgages on a somewhat more level playing field with those buying site built homes. How positive an effect do you expect these new programs to have on manufactured home demand? And how might the programs effect Clayton's sizable profits from lending? Will Clayton sell more loans to Freddie and Fannie? And does that help profits even if spreads compress?

Warren E. Buffett
Chairman, President & CEO

Well, it may not help profits, but it would -- it definitely is good if the Freddie and Fannie are authorized to do more lending against manufactured homes. I mean manufactured homes are a very reasonable way for it to get -- people to get decent housing and have a home. And they are hard to finance to some degree. The local banks frequently do it, but the big lenders haven't wanted to do it. They are -- there is the possibility or the likelihood that Freddie and Fannie are going to expand. We already sell, I don't know whether it's $10 million a month of loans or something like that to Freddie and Fannie. But it would be very good for America, in my view, if Freddie and Fannie did more in that area. Obviously, we would sell some more homes, but we would lose financing, and we might come out behind. We might come out ahead. But I think it would be a good thing to do. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think Freddie and Fannie will finance more and more homes, and I think they'll do more and more of it through Clayton. And they'll do it because Clayton is very trustworthy and will do a very good job at making good housing at cheap prices for people. And I think Clayton will get bigger and bigger and bigger as far ahead as you could see. And the guy is young. He doesn't look like Warren and me, not at all.

Warren E. Buffett
Chairman, President & CEO

We've got a credit managerial group at Clayton…

Charles Thomas Munger
Vice Chairman

Yes.

Warren E. Buffett
Chairman, President & CEO

And we're expanding our site build homes. We just closed on a builder a couple -- a few days ago. And we now have 9 different -- I believe, 9 different site built home operations, and we didn't have any a few

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years ago. And we think extraordinarily well of Kevin Clayton and his group. Our directors met last year in Knoxville and viewed the Clayton operation for the second time. And so we like the idea of Clayton expanding, and we like the idea of more people having very affordable housing.

During the 2008, '09 recession, our borrowers who had very low FICO scores on average, I mean, compared to typical home buyers, and they -- if they kept their jobs, they -- and they made the payments. I mean, they wanted that home and their home was an enormously important item to them, and we had various programs that helped them as well. But our loan experience was far better than people anticipated under the stress that existed then, but it was because a home really means something to people. And absent losing jobs or sickness and like I say, we have some programs to help people, they make the payments and they have very decent living, but they would get that even cheaper if Freddie and Fannie expanded their programs and like I say, I hope they do. Okay. Station 2?

Unknown Attendee

My name is [Carrie], and this is my daughter, [Chloe]. She's 11 weeks. It's her very first Berkshire meeting. We're from San Francisco, and we have a question on employment for you. As both a major employer and a producer of consumer goods, what do you make of the uncertain outlook for good full-time jobs with the rise of automation and temporary employment?

Warren E. Buffett
Chairman, President & CEO

Well, if we'd asked that question 200 years ago and somebody said that the outlook for development of farm machinery and tractors and combines and so on, meaning that 90% of the people on farms were going to be -- lose their job, it would look terrible. But our economy and our people, our system has been remarkably ingenious in achieving whatever we have now, 160 million jobs, when throughout the period ever since 1776, we've been figuring out ways to get rid of jobs. That's what capitalism does and it produces more and more goods per person. And we never know exactly where they're going to come from. I mean, it -- I don't know what they were -- we were in whatever occupation -- well, if you were in the passenger train business, I mean, you were going to -- that was going to change. But we find ways in this economy to employ more and more people, and we've got now more people employed than ever in the history of the country even though company after country and -- company and particularly in heavy industry, that sort of thing, has been trying to figure out naturally how to get more productive all the time, which means turning out the same number of goods with fewer people or turning out more goods with the same number. That is capitalism.

I don't think you need to worry about American ingenuity running out. I mean, you look at people in all kinds of businesses and they like to make money, but they really like -- they like to be inventive. They like to do things. And this economy, it works. It will continue to work, and it'll be very -- it's very tough in certain industries, and there will be dislocations. We won't be making as many horseshoes and that sort of thing when cars come along and all of that. But we do find ways now to employ whatever we're employing, 155, whatever it is, million people and supporting a population of 330 million people, when we started with 4 million people, with 80% of the labor being employed on farms. So this system works and it will continue to work. And I don't know what the next big thing will be. I do know there will be a next big thing. Charlie?

Charles Thomas Munger
Vice Chairman

Well, we want to shift the scud work to the robots to the extent we can. That's what we were doing, as Warren said, for 200 years. Nobody wants to go back to being a blacksmith or scooping along the street picking up the oars when whatever help these people used to do. We're glad to have that work eliminated. And a lot of this worry about the future comes from leftists who worry terribly that the people at the bottom of the economic pyramid have had a little stretch when the people at the top got ahead faster. That happened by accident because we were in so much trouble that we had to flood the world with money and drive interest rates down to 0. And of course, that drove asset prices up and helped the rich.

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Nobody get that because they suddenly love the rich. It was just an accident at the end of the day. It will soon pass.

We want to have all this productivity improvement, and we shouldn't worry a little about the fact that one class or another is a little ahead at 1 stretch.

Warren E. Buffett
Chairman, President & CEO

Charlie and I, we worked in a grocery store. And when people ordered a canopy, we had ladders that we climbed up to reach the canopies and then we placed it in a folding box and then we put it on the truck. And if you looked at the amount of food actually transferred between the producer and a person who consumed it and the number of people involved in the transaction, it was -- now I don't know whether it is 1/3 or 1/4 or 1/5 was efficient as the way -- the best way now to get food delivered to you. And...

Charles Thomas Munger
Vice Chairman

The food was worse.

Warren E. Buffett
Chairman, President & CEO

And my grandfather was distressed about the fact that this particular credit-and-delivery kind of store would be eliminated and it was eliminated, but society...

Charles Thomas Munger
Vice Chairman

It's coming back.

Warren E. Buffett
Chairman, President & CEO

Pardon me.

Charles Thomas Munger
Vice Chairman

It's coming back.

Warren E. Buffett
Chairman, President & CEO

It's coming back, but more efficiently. Anyway, we've seen a little creative destruction. And frankly, we're glad that it frees us up to go into the investment business. Worked out better for us. Becky?

Becky Quick

This question comes from [Brian Gust] of Grafton, Wisconsin. He is talking about regulators and politicians and says the Berkshire Hathaway investment portfolio holds several large financial institutions that are heavily regulated and are politically charged. Do you feel that in some cases, the regulators and/or politicians are running the big banks instead of the CEO and the Board of Directors?

Charles Thomas Munger
Vice Chairman

Sure, but not too much.

Warren E. Buffett
Chairman, President & CEO

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No. Insurance has been regulated. It happens to be regulated primarily on a state basis, but insurance has been regulated ever since we went into it. And it hasn't -- when I looked at GEICO, it was doing $7 million of business and it will do $30-odd-billion of business now. It's been regulated the whole time and regulation can be a pain in the neck generally, but on the other hand, we don't want a bunch of charlatans operating in the insurance business. And insurance actually lends itself to charlatans because you get handed money and you give the other guy a promise. And I like the fact that there is regulation in the insurance business or the banking business. It doesn't mean it can't drive you crazy sometimes or anything of the sort, but those businesses should be regulated. That they're too important at any time you can take other people's money and they go home with a promise and you go home with the money, I don't mind a certain amount of regulation in those businesses. Charlie?

Charles Thomas Munger
Vice Chairman

Yes. Well, if you're using the government's credit because you have deposit insurance, there's an implicit bargain you can't be too crazy with what you do with the money. That's perfectly reasonable. And I absolutely believe that we should have a regulation system that involves supervision of risk taking by banks.

It got particularly bad in the investment banks at the peak of the real estate crisis. And the behavior was -- there's only one word for the behavior, it was disgusting. And it was pretty much everybody. Warren, it's hard to think of anybody who stayed the same in that boom. They felt the other guy was doing dumb things, I got to do it too or I'll be left out. What a crazy way to behave. And so sure, there's some intervention but probably has to be.

Warren E. Buffett
Chairman, President & CEO

Do you want a Food and Drug Administration?

Unknown Attendee

Yes.

Warren E. Buffett
Chairman, President & CEO

You'll be unhappy with how they do it if you're in the business and all that, but -- and I find any kind of regulation irritating, but nevertheless, it's good for the system. And actually, a number of regulators, I would say that they really been quite sensible about regulation, but you don't feel that way when you're being told how to run your business. But as Charlie says, you wouldn't want to be a bank that ran in an unregulated system where anybody could come in and do all kinds of things that would actually have -- that would have consequences that drew you into their -- the problems that they created themselves. But we had the wild western banking long ago, and it produced a lot of problems in the 19th century. Jay?

Unknown Attendee

For the past several years in Berkshire's annual shareholder letter, there's been increasingly less detail provided on its operating businesses and financial performance. For example, the company is no longer providing details on the finance and financial products segment or a balance sheet for the manufacturing service and retail segment or a breakdown of float by unit in the insurance business. For a company as large and diversified as Berkshire, why are investors being provided less information than previously?

Warren E. Buffett
Chairman, President & CEO

Well, I don't think we actually provide less information. We may present it in a somewhat different form from year-to-year just -- and this year, for example, I started my letter as usual in my mind of saying, Dear Doris and Bertie, my sisters, to tell them what I would tell anybody that had a very significant proportion of their net worth in Berkshire, who is intelligent, did not know all the lingo of our various

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businesses that would read a lot of words because they had -- they did have a large investment. So if I explained anything and did a decent job that they wouldn't understand what I was talking about. And I'd tell them that in the language that, I think, will be understandable to the -- to a significant percentage of 1 million plus people who have all kinds of different understanding of accounting and all that sort of thing. I'd tell them the information I would want to hear on the other side.

Now, if I was a competitor and I wanted to know what one of our furniture store was earning or something of the sort, I might love it. But it doesn't really make any difference. If you're talking about a $500 billion organization, if you understand our insurance business and in terms of giving you the picture, I think, in 3 or 4 or 5 pages, actually, we've got a whole bunch of stuff that's required by the SEC about loss reserve development, I think you can write a 300-page report that gives a whole lot less information than a 50-page report and lose people. So I try to tell them, like I say in my mind, as my sisters, I try to tell them what I would tell them if we had a private business and they owned 1/3 of it each and I owned a 1/3. And once a year, they like to get filled in and they don't know what a combined ratio means because it's a dumb term that everybody uses and isn't important, they can just call it a profit margin. They don't know what an -- the operating ratio was in the railroad business and it's an obsolete term. It'd be better to call that a profit margin, but the lingo, we're not writing it for analysts. We're writing it for shareholders, and we're trying to tell them something so they can make an -- they cannot only get the picture as to what we own now, but how we think about the operation what we're trying to do over time. And we try to do the best job we can every year.

And I don't think it -- I think, if somebody is terribly interested in the details, they really are missing the whole picture because you could have known every detail of our textile business in 1965, but we could give you the information as how much we made from linings and how much we made from handkerchiefs, and it'd be in a different world. I mean, the important thing was how we looked at running money and what we would do about things over time and just you could have gotten very misled. If you'd read it in 1980 or '85 and you looked for great detail on how See's Candy was doing and as they moved eastward, we'll tell you that overall, that fell in terms of moving out of the territory. But going into a whole lot of detail that might be very interesting to an analyst, but really for a shareholder, they've got to make the decision as to who's running their money and how they're running it and what they've done over time or what they hope to do in the future and how to measure that. And again, we're writing it for the individual. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I suppose I should be watching every time you got a business down to the last nickel, but I don't. And I don't want that much detail. And I think our competitors would like it and it wouldn't do our shareholders any good. So we'll probably just keep reporting the way we do.

Warren E. Buffett
Chairman, President & CEO

You can see how flexible we are here sitting around. Station 3?

Unknown Attendee

Mr. Buffett and Mr. Munger, I'm [Sasha Tsing-Xing] from China International Capital Corporation Limited. Last week, China announced 12 new measures on further opening up the financial industry. All these measures will allow me more invested institutions to enter into Chinese financial market and to ensure the policies of foreign investment to be consistent with those of domestic investment. What do you think about these new measures? Do you believe the foreign financial institutions will have more pricing power over Chinese stock markets in the future? Do you have any plans to set up a company in China? If so, what time?

Charles Thomas Munger
Vice Chairman

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Well, we've got one now. Dairy Queen is all over China, and it's working fine. And we didn't wait for new laws. We did it under the old laws. But we're not that big yet in China, right, Warren?

Warren E. Buffett
Chairman, President & CEO

We're not that big what?

Charles Thomas Munger
Vice Chairman

In China?

Warren E. Buffett
Chairman, President & CEO

No. But we had something that could have happened that would have been quite sizable. China, it's a big market, and we like big markets. I mean, we really can only deploy capital on a major -- in a major way, maybe in 15-or-so countries just because of the size.

Charles Thomas Munger
Vice Chairman

But generally, I think the climate is getting better. It really makes sense for the 2 countries to get along. Think of how stupid would be if China and the United States didn't get along. Stupid on both sides, I might add.

Warren E. Buffett
Chairman, President & CEO

Yes. We've done well in China. We haven't done enough, but. Andrew?

Unknown Attendee

Warren, this is a question from a member of the House of Lords in Westminster who happens to be here today who also is a shareholder of the company. This is Lord Gadhia who says you've written, "We hope to invest significant sums across borders." So what's your appetite to invest in the U.K. and Europe? And how will Brexit impact that? And while we're at it, what's your advice for solving U.K.'s Brexit dilemma?

Charles Thomas Munger
Vice Chairman

That's yours, Warren.

Warren E. Buffett
Chairman, President & CEO

Well, I can -- I will tell you this. I mean, I gave an interview to the Financial Times that I don't do that very often. But one of the considerations I have is that I would like to see Berkshire Hathaway better known in both the U.K. and Europe, and the FT audience was an audience that I hoped would think of Berkshire more often in terms of when businesses are for sale.

Our name is familiar, I think, pretty much around the world in at least financial circles, but there's no question. If anybody is going to sell a large business in the United States, they're going to think of Berkshire. They may decide for other reasons, they'd rather do it differently, but they will think of Berkshire. And I don't think -- I mean, obviously, that is not as true around the world. We've had some very good luck with a few people that have thought of Berkshire. I mean, such as Iscar and actually, Berkshire Hathaway Energy had one of its base holdings from way back was in the U.K. But I was looking, in doing that interview, I was willing to spend 3 hours with the FT reporters in the hope that when they write about -- when they write the story that somebody someplace thinks of Berkshire that wouldn't otherwise think of it. And we'd love to put more money into the U.K. I mean, if I get a call tomorrow and somebody says I've got an x billion dollar/pound company that I think might make sense for you to own

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and that I would like to actually have as part of Berkshire, I'll get on the plane and deal with it. But I thought the name -- they'll have to tell me what their price ideas are and what its earnings are. I'm not interested in going over and talking about it, pricing it for them and then not making a deal. We like to make deals when we actually get into action. And we're hoping for it.

And we're hoping for a deal in the U.K. and/or in Europe, no matter how Brexit comes out. I think it -- I don't -- I'm not an Englishman, but I have the feeling it was a mistake to vote to leave, but I don't think it's -- I don't think it -- it doesn't destroy my appetite in the least for making a very large acquisition in the U.K. Charlie?

Charles Thomas Munger
Vice Chairman

Well, all my ancestors came from Northern Europe, so I'm very partial to the place. On the other hand, if you ask me how I would vote on Brexit if I lived in Britain, I don't even know. It just strikes me as a horrible problem. And I'm glad it's theirs, not mine.

Warren E. Buffett
Chairman, President & CEO

But if I called you tomorrow and said we had a deal in U.K., you'd tell me...

Charles Thomas Munger
Vice Chairman

I would go in a minute.

Warren E. Buffett
Chairman, President & CEO

Yes.

Charles Thomas Munger
Vice Chairman

Those are my kind of people. I understand them.

Warren E. Buffett
Chairman, President & CEO

Yes. Okay. Greg?

Unknown Attendee

Yes. Warren, just want to kind of maybe follow-up on those past 2 questions because there is sort of a theme there. It seems to me that there's definitely more of a home-country bias when we look at the acquisitions and investments that Berkshire has done historically. And while there's definitely value in sticking with what you know and feel the most comfortable with, it seems like you've gone from a model that was originally focused on putting boots on the ground to find investment and acquisition opportunities, to one where you're seemingly more content to have sellers or the representatives call you or drop by the office, basically, more of a pull model than a push model. There's nothing wrong with this, but I just wondered if the opportunity cost that comes with this type of model is that Berkshire misses out on a lot of overseas business where owners are unaware of your willingness to step up and buy them outright and allow them to run their companies under the Berkshire umbrella, and missing stock investment opportunities because Berkshire is not necessarily familiar enough with the local market. At this point, do you think Berkshire would benefit from putting more boots on the ground in these overseas markets?

Warren E. Buffett
Chairman, President & CEO

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We -- actually, it must have been after we bought Iscar, Eitan Wertheimer convinced me that we should get more exposure in here and he helped out in doing that. I went over, he arranged various meetings. We've had a lot of contact. It isn't that they're not aware. And we do hear about some. But we do have the problem, they've got to be sizable. I mean, if we do a $1 billion acquisition and it makes $100 million or thereabouts pretax, $80 million after-tax, it's -- if we really know the business and we're sure we're not going to have a problem with the people running it being motivated in the future and doing a similar job as to when they had their own money and everything, it's nice to add $80 million to $25 billion, but you can't afford to spend lots of time doing that. And we've -- we gained something by having Todd and Ted do some looking at things, screening and that sort of thing. But in the end, you want somebody that -- some family that's owned or held their business in Europe or in the U.K. for 50 years or 100 years that can make a deal and that wants to do it with Berkshire. I mean, if they're looking for -- to get the most money, if they want to have an auction, we're not going to win and we're not going to participate because we're not going to waste our time out of that. It's -- if we form an acquisition crew, they'll acquire something. I mean, I've watched so many institutions in operation that if your job every day is to go to work and screen a bunch of things with the idea that you're the strategic department or acquisition department, you're going to want to do something. I want to do something, but I don't want to do something unless Berkshire benefits by it and crudely benefits by it and it's generally a supersize.

Charles Thomas Munger
Vice Chairman

Warren, our problem is not unlike a boots on the ground. Our problem is that people on the ground are paying prices that we don't want to pay.

Warren E. Buffett
Chairman, President & CEO

Yes.

Charles Thomas Munger
Vice Chairman

That's our problem. And then that that problem is not going to be cured by boots.

Warren E. Buffett
Chairman, President & CEO

We can spend $100 billion in the next year. That is not a problem.

Charles Thomas Munger
Vice Chairman

No.

Warren E. Buffett
Chairman, President & CEO

Spending it intelligently is a huge problem. And...

Charles Thomas Munger
Vice Chairman

Our competitors are buying with somebody else's money and they get part of the upside baked down to the downside. And it's hard to compete with people like them.

Warren E. Buffett
Chairman, President & CEO

Yes. They'll leverage it up, they'll make a lot of money if it fails and they'll make even more money if it succeeds. And that's not our equation.

Charles Thomas Munger

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Vice Chairman

No.

Warren E. Buffett
Chairman, President & CEO

And that isn't always that way, but it's certainly that way now. It's probably...

Charles Thomas Munger
Vice Chairman

And it's not in the shareholders' interest that we get to be like everybody else.

Warren E. Buffett
Chairman, President & CEO

Yes. Okay. Station 4?

Unknown Attendee

Mr. Buffet and Mr. Munger, thank you so much for the wisdom you've shared with us over the years. This is [Stephen Wood] from New York. And Mr. Buffet, thank you very much for your feedback, your very generous feedback last August on the book that I'm writing. I just had 1 follow-up, if I may. In studying the most significant value creators of all time, it is very evident that the major compounding effect happened later -- at the later stages of the careers or, in Vanderbilt's case, even beyond his own career. So your recent investments have suggested to me that you are designing Berkshire to being a steady compounding machine that should continue to create value for a very long time. Would you both please elaborate on this compounding machine and the machine's ability to continue to adapt to keep this value creation durable? And then is this legacy one of your sort of primary motivations when you wake up every day?

Warren E. Buffett
Chairman, President & CEO

I would say it is the primary motivation, but it's been that for a very, very, very long time. No matter what was going right in my life, if things were going badly at Berkshire, I would not feel good. And I don't need to be spending my time working on something that makes me feel bad about the results when we get through. So -- and it's something that's doable. I mean, the culture is stronger now than it was 10 years ago and it was stronger then than 10 years previously. It moves slowly, but it goes in the right direction. And when we get chances to deploy the capital, we've always tried to make any entity, whether it was the partnership originally or the -- or Berkshire now or Blue Chips Stamps when we owned it or even Diversified Realty, we wanted them all to be compounding, in effect to be compounding machines, that's why people gave us capital, that's why we put our own capital in. And if we fail that we feel -- we really felt like we'd failed. It didn't make any difference how much money we made from fees or anything like that. We knew what our yardstick was. And so that will continue.

I think Berkshire is better situated than it's ever been expect for the fact that size is drag on performance. And I probably wrote that 40 years -- oh, I wrote it actually when I closed the partnership to new money when we had like $40 million in it. I just said that really, that new -- that additional capital would drag down returns from a $40 million base. So you can imagine how I feel with $368 billion base of capital in Berkshire now.

But this culture is special. It can work. It won't be the highest compounder by a long shot against many other businesses. I think it want to be -- it'll be one of the safest ways to make decent money over time, but that will depend on the people that follow us. Charlie?

Charles Thomas Munger
Vice Chairman

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Well, we came a long way from very small beginnings. And the fact that it slows down a little when it becomes monstrous is not my idea of a huge tragedy. And I think we will continue to do very well in the future. We had nothing like the energy operation 20 years ago, and it's a powerhouse. We had nothing like Kevin's operation in home building 30 years ago and it will soon be the biggest. Well look, even now, it's bigger than anybody else in the country if you go on both types of housing, isn't it? Houses. I think so. And we have a lot going for us and I'm satisfied. I think it's going to continue reasonably.

Warren E. Buffett
Chairman, President & CEO

And it would ruin our life if we did terribly. So that's what we wake up thinking about in the morning. But I wouldn't want to be in the business where I was going to let down other people. And I think it'd be crazy to do something like that even if you weren't rich and 88. So it -- we are motivated to have something that is regarded as something different than others. And we're actually in a world where so much money is institutionalized. I like the idea of having something that's actually owned by individuals in very significant part who basically trust this and don't worry about what the next quarter's earnings are going to be. I think it's different than much of capitalism and I think it's something that Charlie and I feel good about. There's no -- Charlie?

Charles Thomas Munger
Vice Chairman

Yes, absolutely.

Warren E. Buffett
Chairman, President & CEO

Carol?

Carol Loomis

This question comes from [Stefan Debode] of Danville, California, and it raises a question I've certainly never heard before. Mr. Buffett, in the past, you have recommended low-cost S&P, and again, today, S&P 500 Index Funds as reliable long-term investment vehicles. These funds have certain inherent structural advantages, such as low costs and automatically shuffling of their holding. But Berkshire also has certain structural advantages, such as financial leverage from the float and diverse capital allocation opportunities.

I think of Berkshire as being ahead in this game. For example, it seems to me that if Berkshire's overall operating business and investment performance were to exactly match the total return of the S&P Index over a 10-year period, Berkshire's growth in intrinsic value would outperform the S&P 500. If you agree, could you estimate by how many percentage points?

Warren E. Buffett
Chairman, President & CEO

Well, the answer is I won't estimate anything, but the -- if we just owned stocks and we own the S&P, our performance would be significantly worse than the S&P because we would be incurring a corporate tax, which would now be 21% on capital gains, plus possibly some state income taxes. And effectively, our tax rate on dividends is -- depends where they're held, but somewhere between 10.5% or 11% and 13%. So Berkshire is a mistake or it's at a corporate disadvantage simply by the way the tax law runs compared to owning an index fund, which has no tax at the corporate level, but just passes through the shareholders. So I wouldn't -- I don't know whether we'll outperform the S&P 500 or not. I know that we'll behave with our shareholders' money exactly as we would behave with our own money. And we will have -- we'll basically tie our fortunes in life to this business, and we will be very cognizant of doing anything that can destroy value in any significant way. But we will probable -- if they were to be a very strong bull market from this point forward, we would probably underperform during that period. If the market 5 years from now or 10 years from now is at this level or below, we will probably over-perform, but I'm not -- I don't think that I want -- I don't quite understand the question in terms of, what is it, the total return of

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the S&P over a 10-year period and Berkshire's growth in intrinsic value would outperform. I don't know whether that will happen or not. Charlie?

Charles Thomas Munger
Vice Chairman

Well, there'd be 1 big advantage for the shareholders that pay taxes. And that is that the Berkshire shareholders even if we just match the S&P, we'd be way ahead for taxes. We all have a pretty decent real world life and a pretty good position. We shouldn't be too disappointed.

Warren E. Buffett
Chairman, President & CEO

No. If we had -- we could have structured -- going back to partnership days, we could have structured things so that actually, over a period of time, doing the same things we did, would have come out somewhat more favorably for shareholders if we'd kept it to the original partnership group. But the present format doesn't work badly, although we haven't had periods when our corporate capital gains tax as opposed to the individual, I think it got up to 39% a couple of years or 1 year and certainly, it was 35% for a long time. And then on top of that, we had state income taxes in some cases and they exceeded -- well, I mean, if you owned a pass-through fund, you did not have that level of possible double taxation. Now, if you hold your stock forever, you don't pay it. But if you actually sell your stock, you'd had a double tax effect. We're not complaining in any way, shape or form. This country has treated us incredibly well, and we've added this huge tailwind, which I wrote about in the annual report and that wouldn't have happened in any other country. So it's -- we've been very lucky that we've been operating in this country at this time. Charlie, anything?

Charles Thomas Munger
Vice Chairman

No.

Warren E. Buffett
Chairman, President & CEO

Jonathan?

Unknown Attendee

In Nevada, several casinos have cut the cord with our NV Energy subsidiary and are seeking their electricity needs elsewhere even though they had to pay huge exit fees. I've 3 questions about this phenomenon. One, do you believe that these are rational choices or were they made for noneconomic reasons? Two, what can [NVD] do, if anything, to stem the tide of defections? And three, is this something that could happen in other states where you operate regulated utilities? Or is the situation in Nevada somehow unique because of supersized customers that have more leverage in the power market than smaller industrial customers in other states? And I don't know whether that's a question for you or Greg, but I'd be happy to hear from either of you.

Warren E. Buffett
Chairman, President & CEO

It's a question for Greg.

Gregory Edward Abel
Vice Chairman of Non Insurance Business Operations & Director

Thanks, Jonathan. So just for everybody, I think they heard the question from Jonathan, but we've owned the utility there for approximately 5 years. When we inherited the utility, we knew it had some fundamental issues around its customers. The relationships were really strained from day 1 because it had a history of continuing to increase rates. And they really weren't delivering renewable energy or meeting the customers' needs or expectations. So we knew we had some challenges there.

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As we sit here today, we've had 5 customers leave our system. Those customers still use our distribution services. So the only thing we do not provide them is the power. So we have lost an opportunity to sell them power and we've lost the associated margin on that and we were disappointed with that. We do recover substantial fees, as you noted. How the commission looked at it was, "Well, you lose this customer, we'll give you effectively 6 years of profit on that. And by then, you should have grown back into your normal load." And actually, it's a fair outcome. Our load is higher than it was relative to when those customers have left. So we've grown through that, and it's consistent with their belief.

The fundamental issue and you've touched on it, why are they leaving, there are economic reasons for them leaving. And the fundamental reason is in year 7, they no longer bear sort of the societal costs that are being imposed by the state. They don't have to bear the cost of renewable energy, they don't bear the cost of energy efficiency, and they viewed it as sort of the time to exit out of that model.

We do have a variety of legislation that's going to levelize the playing field. We've had a number of customers that announced they were leaving now and entered into long-term agreements with NV Energy. And I really do believe our team has the right model, which we're much more focused on delivering a great value proposition to our customers, so it has to include price. But equally, we're building substantial renewable energy there now. And long term, our team will deliver great proposition to them, and I think that -- and NV Energy will -- it will prosper in the long term. We're going to be happy with it as a long-term investment. Thank you.

Warren E. Buffett
Chairman, President & CEO

Greg, could you give them -- give the audience a rough approximation of what, say, in the 10 years or whatever it may be before we bought Nevada Power, what had happened with rates -- what has happened with rates under us and what has happened with coal generation under us?

Gregory Edward Abel
Vice Chairman of Non Insurance Business Operations & Director

Right. Yes. Yes, that's great. So as -- Warren's really expanding on what we're -- the focus we brought to delivering something to the customer. So if you'd looked at the prior 10 years, they pretty much had a rate strategy that every second year, their rates would go up sort of by the cost of inflation. And that pretty much materialized year after year. We came in immediately just like we've done in Iowa, so we've built all that renewable in Iowa, and we've never increased rates since the date we acquired it, 1999. So rates have been stable, and we don't ever see raising rates in Iowa until probably 2030 or 2031.

Our team took a very similar approach in Nevada, which was to stabilize it so rates are down probably 5% to 7% since we've owned them, so we haven't had rate increases. We've announced substantial rate increases again that will take effect every 2 years. So just like we used to be able to have rate increases, we have a view of when we'll decrease the rates. The rates will go down again in 2002. We've -- and -- or I mean in 2 years.

And then on top of that, there's been an approach to eliminate coal, as Warren touched on. So fundamentally, when we acquired it, all their coal fleet was operating. We've retired a substantial portion of the coal fleet already. And by, I believe it's within a year of this, 2023, we'll have eliminated 100% of their use of coal in that state, and it was a substantial portion of their portfolio in the past. So the team's done a great job. Thank you.

Warren E. Buffett
Chairman, President & CEO

Charlie, you have a...

Charles Thomas Munger
Vice Chairman

No.

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Warren E. Buffett
Chairman, President & CEO

Station 5.

Aaron Lanni

My name is Aaron Lanni. I'm a portfolio manager at a company called Medici out of Montréal, Québec. My question is actually for Todd and Ted, if possible. So according to Warren, you lag slightly behind the S&P 500 since joining Berkshire. So what recent changes, if any, have you implemented to increase your odds of beating the S&P in your respective stock portfolios over the next 10 years?

Warren E. Buffett
Chairman, President & CEO

Yes. I'm not sure whether Todd or Ted are here, but they -- I will tell you, but then I'll make this the final report on it. But on March 31, actually, one is modestly ahead, one is modestly behind. But they are extraordinary managers. It has not been -- it was a tough -- been a tough period to beat the S&P and like I say, one is now -- as I had a -- the S&P over that period, one's modestly behind, they've also helped us in just all kinds of it.

What Todd has done in connection with the medical initiative we have with JPMorgan, Amazon, I mean, I don't know how many hours a week he's worked totally on that. The things they've brought to me, what Ted did in terms of the Home Capital Group, where we have essentially -- in a major way, well, we stabilized a financial institution that was under attack and experiencing runs in Canada, and he did the whole thing. But I heard about that on a Monday and on Wednesday, we've put an offer before the company. And previously to that, they probably had dozens and dozens of people combing over them and meanwhile, they were struggling. And it was remarkable what he did, and I think it's appreciated in the Toronto area.

So we are enormously better off because the 2 are with us, and while we have that measurement, like I say, I'd -- I'll just put it this way, they're doing better than I am anyway. So if you ask me to report on them all the time, I'd have to report on myself all the time, and I'm not -- that would be embarrassing compared to how they do. They do very -- they're very, very smart. They're smart with their own money over the years. They've been smart in running other people's money over the years. And they've made us a lot of money, but they made it during a market where you could have made a lot of money in the S&P as well. Charlie?

Charles Thomas Munger
Vice Chairman

No, go ahead.

Warren E. Buffett
Chairman, President & CEO

Okay. Becky?

Becky Quick

This question comes from [Liders Leev, Ulysses Leev, and Dan Gorfund] of Israel. And they write to both Mr. Buffett and Mr. Munger, do you think that Amex's share of mind is enough to win the credit cards race? How do you see Amex's competitive position now compared to the past? And who is the most threatening competitor now compared to the past?

Warren E. Buffett
Chairman, President & CEO

Yes, everybody's a competitor. And including now, Apple has just instituted a card, I guess, in conjunction with Bowman's exit. Everybody -- there will always be, in my view, many, many competitors on the business. Banks can't afford to leave the field. It's a growing field. They build up receivables on it. But I

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wouldn't think of the credit card business as one -- as a one-model business any more than I would think of the car business as essentially being one model. I mean Ferrari's going to make a lot of money, but they're going to have just a portion of the market with Amex.

Amex is growing around the world with individuals. It's growing around the world with small businesses. You just saw the contract they made with Delta, which is probably the ideal partner that runs, what, for 8 or 9, whatever it may be -- 9 or 10 years, actually. It's -- the billings go up per capita. They go up -- they -- the coverage spreads. And they're going to have loads of competition, and they always will. But they had -- that's something JPMorgan took on The Platinum Card and that was a competitor. And The Platinum Card had the highest renewal rates that they've had, and they've increased the price, I think, from $450 to $550 during a competitive battle. And retention improved, and new business improved, and 68% are sold to new business was millennials. I mean it is a -- it is not an identical product with anything else. And as a premium card, it has a clientele which is large. It may only be -- it may be X percent of the market, maybe 3/4 of X percent or whatever it may be. It isn't for the person that likes to have 5 cards and look every day at which one provides the most rewards that day or in what gas stations or something of the sort, but it's got a very large constituency that has a renewal rate, a usage rate that's the envy of everybody else in the industry. So I like our American Express position very well. Charlie? Charlie, anything on the directional?

Charles Thomas Munger
Vice Chairman

No. I think we own the world as long as the technology stays the same.

Warren E. Buffett
Chairman, President & CEO

We -- it's an interesting thing...

Charles Thomas Munger
Vice Chairman

I have no opinion about technology.

Warren E. Buffett
Chairman, President & CEO

This year, the technology is not the whole thing. I mean, fortunately. I mean it -- if you look at credit card usage, there are a lot of different things motivating different people. They use different -- various types of payment systems and there's a lot of them. They're growing. There are some of them that are marginal, and American Express is an extraordinary operation. And I think this year, our share of the earnings -- well, by next year, our share of the earnings of American Express will be equal to the cost of our position. We'll be earning 100% on what that position cost us, and I think it will grow. And I think the number of shares will go down, and our interest will go up without us playing out a dime. So it's...

Charles Thomas Munger
Vice Chairman

As you say, we own the world if it doesn't change.

Warren E. Buffett
Chairman, President & CEO

Well, even if it changes some. The world has changed a lot. American Express was formed in 1850.

Charles Thomas Munger
Vice Chairman

And I'm talking about WeChat.

Warren E. Buffett

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Chairman, President & CEO

You talk about a -- we know about all kinds of competitor.

Charles Thomas Munger
Vice Chairman

Yes.

Warren E. Buffett
Chairman, President & CEO

But they -- American Express actually was an express company formed in 1850, like I said, by Wells and Fargo of all people. And for a while, they carried these big trucks around of valuables and then the railroads came along. And that wasn't going to work very well anymore so they went into traveler's checks, and it's a very interesting thing. In 1950, when I was living at 116th and Broadway, they were down at 65 Broadway, and they were the most important name in travel. They were synonymous with the integrity of their traveler's checks. And the whole company, in a record year for travel, earned $3 million. $3 million, what a bond trader earns now in my lifetime. That's what they've done with -- and they -- their hand going in was the traveler's check, which has more or less disappeared, but the traveler's -- the American Express, the power of that brand intelligently used going into the credit card business where they entered much later the Designer's Club, later than [Cart Glotch], but they came to dominate the luxury and the credit card business. It's a fantastic story, and I'm glad we own 18% of it. Okay. Jay?

Unknown Attendee

I'm actually going to ask something about Occidental Petroleum. I'm surprised it hasn't been asked yet. So Berkshire has committed to providing $10 billion of financing in the form of an 8% preferred share and attached warrants for Occidental's proposed acquisition of Anadarko. This is the first time Berkshire's committed to such a large preferred share investment since the acquisition of Heinz in 2013. What did you find attractive about the Occidental deal in terms of its business? And should we expect other large financing transactions in the future as a way for Berkshire to deploy a portion of its excess cash?

Warren E. Buffett
Chairman, President & CEO

I don't think the Occidental transaction will be the last one we do. There may be one in a month, there may be now. There may be one, 3 or 4 years from now, it won't be identical. I hope it's larger. But the point is we're very likely to get the call because we can do something that really, I don't think -- no institution can do it. I mean they've got committees that have to pass on it, they want to have so-called MAC clauses, material adverse changes, they want to do this and that. And if somebody wants a lot of certain money for a deal, they've seen that I can get a call on Friday afternoon and then -- and they can make a date with me on Saturday, and on Sunday, it's done. And they absolutely know that they have $10 billion, and we're not going to tell them how to structure their transaction or do anything else. They've got it. And there will be times in the future when something not identical, but somewhere comes along and we're the one to call, and I hope it's larger than $10 billion. But it could be we'll do -- in the next 5 years, it could be we'll do a lot of money, additional money and things similar to this, not identical, and it could be that nothing will happen. But if there are any $10 billion or $20 billion or maybe even $50 billion 2-day transactions that are in the world, well, let me know, think of Berkshire Hathaway, for sure, in terms of what number to call. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I like it.

Warren E. Buffett
Chairman, President & CEO

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I called Charlie as soon as we made it. I called Ron Olson first because I was worried that he might have a conflict. And in about 10 minutes, he had -- I told him we -- it had to be done by Monday night. And [Korath] was being told the same thing by Occidental. And it went very light on Monday night, but all of the papers were put in order and [Markintols] in Los Angeles and [Korath] was in New York and I was in Omaha. And I didn't do that much, Marc Hamburg did a lot of the work. He was at work on Sunday on other things when I went down to meet with the Occidental people. And it was the product of people who understood us, understood how we operate and both with an incentive to put all the manpower on -- necessary on the job. And like I say, their -- I think their Board of Directors met at 10:00 on Monday night to approve it, but they could announce it Tuesday morning, and that's what they wanted to do. And with Berkshire, they could do it. Okay. Station 6.

Unknown Attendee

Good afternoon. My name's [Tony McCaughlin]. I'm from Montgomery, Alabama, and my question is about your disciplined risk evaluation approach and how you balance that with the fact that perseverance and determination and grit are often necessary forces for success.

Warren E. Buffett
Chairman, President & CEO

Well, I'm not -- I certainly like determination and grit in the -- with the people we work for. But we don't have any formula that evaluates risk. But we certainly make our own calculation of risk versus reward in every transaction we do. And that's true whether it's marketable securities, that's true whether it's private investments, that's true whether it's making an investment in the business. And sometimes, we're wrong, and we're going to be wrong sometimes in the future. You can't make a lot of decisions in this business without being wrong. But we don't think the procedure or the results would be changed favorably by having lots of committees and lots of spreadsheets and that sort of thing. It just -- if I had a group under me, they would try and figure out what I wanted the answer to be and they would tell me what I wanted to hear and I've watched that approach at 20 public companies. And what the CEO wants to do, they may spend a lot of time getting there. But the investment banker gets there and the internal committees get there or the internal operation get there.

The calculations, it's the same as the insurance business with Ajit. Ajit gets calls on insurance deals, and you have to think through that deal. The main thing is you have -- are you reasonably sure that you know what you're doing? And it gets past that hurdle then we go on to figure out the math of gain versus loss, and how much loss we can afford to take in anything. And we're willing to take what sound like large losses if we think that the rewards are more likely and proportional. Charlie?

Charles Thomas Munger
Vice Chairman

I got nothing.

Warren E. Buffett
Chairman, President & CEO

Yes. It's very disappointing, we have no formulas around Berkshire. We don't sit down and write a bunch, people work until midnight, calculating things and putting spreadsheets together. And if the hurdle rate is 15% or something, having them all come on at 15.1% or 15.2% because that's what's going to happen, I mean, you're going to get the numbers you want to hear is what I've experienced really. The proposals we receive from the investment world, I've got to tell you about one because it almost [brings a lot]. We received a proposition the other day, and I'll disguise the numbers a little bit so nobody can pick it out. But it was a private company and we'll say it was earning $100 million a year. But the seller of the business and the investment banker suggested that we should look at the earnings as being $110 million a year because as a private company, they had to pay their top people in cash, which was expensed but we could pay them in stock options and things like that, which weren't expensed or were explained as not really counting, and therefore, we would -- could report $110 million if we gave away something we didn't want to give away. But by -- essentially by sort of lying about our accounting, we could add $10 billion in earning, and they wanted us to pay them because they couldn't do it and we could do it. And therefore,

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at this point, they're losing me, of course, totally. But it's just astounding the accounting games that are played, all the adjustments are why a place should really be -- will be earning more than before. It's a business -- we also had one that came in from a private equity firm, and by a mistake, we got the email that was sent to the manager from the email from the private equity firms that owned it. The manager in terms of making projections for it, and they told him to add 15% because they said, "Buffett was discounted by 15% or 20%." Anyway, so just to add 15% to offset this conservatism. It's not an elegant business as Charlie will tell you. Do you have any better stories, Charlie?

Charles Thomas Munger
Vice Chairman

It's bad enough. And it's really very bad enough -- when do we allow our leading citizens lying and cheating?

Warren E. Buffett
Chairman, President & CEO

Andrew?

Unknown Attendee

I believe it's my final question and admittedly, it's a 2-parter, but it's the same topic. Elon Musk says that Tesla will start to offer insurance for its cars and can price it better than a typical insurance company because of the data it collects from all the vehicles on at the road. You've talked about the threat of autonomous vehicles on the insurance business, but what about the threat to GEICO of automobile companies themselves getting into the insurance business?

And on a very similar topic, Tesla recently announced they're shifting to an online-only sales model. Several traditional auto dealerships are also reducing their property holdings as car buyers increasingly use smartphones and the Internet to shop for cars. What does this portend for Berkshire Hathaway Automotive?

Warren E. Buffett
Chairman, President & CEO

Yes. Actually, General Motors, I think the company for a long time bought motors and insurance company and then various companies have tried it. I would say that the success of the insurance company -- of the auto companies getting in the insurance business are probably about as likely as the success of the insurance companies getting into the auto business.

It -- I worry much more about Progressive than all of the auto company possibilities that I can see in terms of getting insurance businesses. It's not an easy business at all. And I would bet against any company in the auto business being any kind of an unusual success. The idea of using telematics in terms of studying people's -- driver's habits, that's spreading quite widely. And it is an important -- it is important to have data on how people drive, how hard they brake, how much they swerve, all kinds of things. So I don't doubt the value of the data, but I don't think that the auto companies will have any advantage to that. I don't think they'll make money in the insurance business.

The -- using the Internet to shop for cars is like using the Internet for shopping for everything. It's another competitor. And there's no question that people will offer for better ways. And the gross margin on news cars -- on new cars is about 6% or thereabouts. So there's not lots of room in the game but that's -- that will be a method and that will sell some cars. And if there are -- yes, it's another competitor that -- but I don't think it destroys the auto dealer who takes good care of the customers and is there to service the customer. And no, it's not an overwhelming threat, but it's obviously something that's going to be around and will sell some cars. Charlie?

Charles Thomas Munger
Vice Chairman

Again, nothing.

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Warren E. Buffett
Chairman, President & CEO

Okay. Greg?

Unknown Attendee

Warren, a lot of Berkshire's success over the years has come from the fact that you and Charlie have had the luxury of being patient, waiting for the right opportunities to come along to put excess capital to work even if it has led to a buildup of large amounts of cash on the balance sheet. This has historically worked out well for shareholders, as you and Charlie have been able to take full advantage of the disruptions in equity and credit markets or special situations like we saw with the OXY deal, to negotiate deals on terms that ultimately benefit Berkshire shareholders.

That said, there is an opportunity to cross-test your decision to hold on to so much cash, one that investors have been willing to bear, primarily by foregoing a return of excess capitals, dividends and share repurchases as well as seeing lower returns on cash holdings.

As we look forward, how certain can we be that this will still be the case once you're no longer running the show, especially if Berkshire's returns are expected to be lower over time? And is it not more likely that the next managers of Berkshire will have to manage the eventual migration of Berkshire from an acquisition and investment platform to a returning capital to shareholders vehicle?

Warren E. Buffett
Chairman, President & CEO

Yes. Well, that's certainly a possibility. I mean it's a possibility under me, it's a possibility under the successor. It's a question of can you invest truly large sums, reasonably well? You can't do it as well as you can do small sums. There's no question about that. But we will have to see how that works out over many years because certain years, lots of opportunities, huge opportunities present themselves and other years, there are totally dry holes. So that's not a judgment you can make in a 1-year period or a 3-year period, it's certainly a judgment you can make over time though. And I -- personally, my estate will have basically nothing but Berkshire in it for some time as it gets dispersed to philanthropies. And I have a section in there which says to the trustees in effect who manage it -- I have a section in there that says ignore the -- your exempted, from my standpoint, from the law that trustees normally should diversify and do all that sort of thing. And I want the entire amount that they have to be kept in Berkshire as they distribute it over time to the philanthropies, and I don't worry at all about the fact. I would like to have a very large sum go to the philanthropies and I don't worry at all about the fact that they're essentially will all be in Berkshire. I'm willing to make that decision while I'm alive, which will continue for some years after I die. So I have a lot of confidence in the ability of the Berkshire culture to endure, and that we have the right people to make sure that, that happens. But I'm betting my entire net worth on that, and that doesn't give me pause at all. I'd rewrite my will every few years and I'd write it the same way in respect to the Berkshire holdings. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I don't know where the end exist, and I have always [of the belief] owning just 2 or 3 stocks. And I have -- now I'm minded that everybody who teaches finance in law school and business school teaches that what I'm doing is wrong. It isn't wrong, it's worked beautifully. I don't think you need a portfolio of 50 stocks if you know what you're doing, and I hope my heirs will just sit.

Warren E. Buffett
Chairman, President & CEO

My heirs hope that I'll change my will. Okay. Station 7.

Unknown Attendee

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Good afternoon, Mr. Buffett and Mr. Munger. My name is [Bill Hee], and I'm from Vancouver, Canada. You do make up an iconic duo. And growing up, I found your investment strategies very admirable. And so my question is how do you deal with conflicts when they arise between the 2 of you?

Warren E. Buffett
Chairman, President & CEO

Are you implying personal conflicts in terms of doing something ourselves versus having Berkshire do it? Or -- oh, between the 2 of you on this. Charlie and I, literally, and people find this hard to believe, but in 60 years, we never had an argument. We have disagreed about things, and we'll probably keep occasionally disagreeing about this or that. But if you define an argument as something where emotion starts entering into it or anger or anything of the sort, it just doesn't -- it doesn't happen.

I think that Charlie is smarter than I am, but I also think that there's certain things that where I've spent more time on them than he has and sometimes we both think we're right. And generally, I get my way because Charlie is willing to do it that way and he's never going to second-guess me when things have been wrong. And I wouldn't dream of second-guessing him if he were doing something that's wrong. So -- that turned out to be wrong. And really, we will -- we'll never have a conflict, basically. Charlie?

Charles Thomas Munger
Vice Chairman

Well, the issue is about how long -- how we get along, the issue is how this is going to work when we're gone, and the answer is fine. It's going to work fine.

Warren E. Buffett
Chairman, President & CEO

We're lucky that -- and I ran into him when I was, what, 28 years old. And I -- we both worked in the same grocery store and they grew up less than a block away from where I now live and everything, but I did not know who Charlie Munger was until I was 28. But clearly, we're in sync in how we see the world and we're in sync on business decisions, basically. Charlie would do fewer things than I would, but that's because I'm spending my time on this while he's designing dormitories or something. And we both keep busy in our own ways, and we have a lot of fun dividing the labor like we do.

But you really want to work -- I mean, having the right partners in life, particularly the right spouse, but particularly having the right partners in life is enormously important. I mean it's more fun with a partner, both in personal life and in business life. And you probably get more accomplished, too, but you just have a better time without any fun to do work on a little [roll] and make a ton of monies, trading around securities but never working with another human being. So it -- I recommend finding -- well, Charlie gave some advice and then we'll be finding.

Charles Thomas Munger
Vice Chairman

Well, the best person that will have you or something like that. But yes, sort of a limited objective. But It's not hard to be happy if you're a collector and don't run out of money. Collecting is intrinsically fun. Just think who -- how many people who you know in your whole life who were collectors who didn't run out of money who weren't happy collecting? And so we've been collecting all our lives. It's a very interesting thing. There's always a new rock to be turned over and it's interesting.

Warren E. Buffett
Chairman, President & CEO

Yes. And certainly, we've collected friends that make our lives better and that we have a good time with. And it's very important who you select as your heroes or your friends. And I've been lucky in this. I mean it was only because of a doctor named Eddie Davis and his wife that Charlie and I even met. And -- but if you keep doing enough things, some will work out, very lucky. And the best ones are ones that involve lifelong involvement with other people. But -- and we've got some in our -- some of our directors, a

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number of our directors that have had similar impacts on me. So I recommend that you look for somebody better than you are and then try to be like they are.

Charles Thomas Munger
Vice Chairman

It's funny how we've lost people along the way, and I lost one secretary. And oh, my God, she was so wonderful, Gladys. We'll never get another one. Becki is better. And then we had Verne McKenzie, who's a wonderful Chief Financial Officer, he's gone. And the current incumbent is better. We've been very lucky, and maybe you, the shareholders, will be lucky a few more times.

Warren E. Buffett
Chairman, President & CEO

Okay. Station 8.

Unknown Attendee

Hi, Warren. Hi, Charlie. My name is [Jacob]. I'm a shareholder from China and also a proud graduate of Columbia Business School. Thanks for having us here. My question is our world is changing at a faster pace today versus 40 years ago and even more so going forward. And in this context, for each of us individually, should we expand our circle of competence continuously over time? Or shall we stick with the existing circle or risk having a shrinking investment universe?

Warren E. Buffett
Chairman, President & CEO

Well, obviously, you should -- under any conditions, you should expand your circle of competence...

Charles Thomas Munger
Vice Chairman

If you can.

Warren E. Buffett
Chairman, President & CEO

If you can. Yes. And I've expanded mine a little bit over time.

Charles Thomas Munger
Vice Chairman

Where I can't feel that, ought to be pretty cautious.

Warren E. Buffett
Chairman, President & CEO

Yes. And you can't force it. If you told me that I had to become an expert on physics or...

Charles Thomas Munger
Vice Chairman

Dance, maybe in the lead in the ballet world. That would be a sight.

Warren E. Buffett
Chairman, President & CEO

Yes. Well, that's what I...

Charles Thomas Munger
Vice Chairman

Particularly now.

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Warren E. Buffett
Chairman, President & CEO

That's what you may be thinking about, but I -- that didn't even occur to me. But yes, it's ridiculous. That doesn't mean you can't expand it at all. I mean I did learn about some things as I've gone along in a few businesses. In some cases, I've learned that we're -- that I'm incompetent, which is actually a plus and you've discarded that one. But it doesn't really -- the world is going to change. It's going to keep changing. It's changing every day, and that makes it interesting. And as it changes, certainly, within what you think is your present existing circle, you have to -- you should be the master of figuring that one out or what really isn't your circle of competence. And if you get a chance to, expand it somewhat as you go along. I've learned some about the energy business from Walter and Greg as we worked together, but I'm not close to their level of competence on it, but I do know more than I used to know. And so you get a chance to expand it a bit.

Usually, I would think normally your core competence is probably something that sort of fits the way the mind has worked. Some people have what I call a money mind, and they will work well in certain types of money situations. It isn't so much a question of IQ. The mind is a very strange thing. And people have specialties whether in chess or bridge, I see it in different person. People that can do impossible -- what seemed to be impossible things. And they're really, kind of, as Charlie would say, stupid in other areas. So just be wary of it. Don't think you have to increase it and, therefore, start bending the rules. Anything further, Charlie?

Charles Thomas Munger
Vice Chairman

No.

Warren E. Buffett
Chairman, President & CEO

Station 9. Just about -- yes, we got time for a couple of more.

Unknown Attendee

My name is [John Durso], and I'm from New York. Mr. Buffett, you've said that you could return 50% per annum if you were managing a $1 million portfolio. What type of strategy would you use? Would you invest in cigar butts, i.e., average business at very cheap prices? Or would it be some type of arbitrage strategy?

Warren E. Buffett
Chairman, President & CEO

It might well be the arbitrage strategy, but in a very different, perhaps, way than customary arbitrage is a lot of it. One way or another, I can assure you, if Charlie was working with $1 million or $300 million, we would find a way to make that with essentially no risk, not using a lot of leverage or anything of the sort. But you change the $1 million to $100 million, and that $50 million goes down like a rock. But there are little fringe inefficiencies that people don't spot. And you do get opportunities occasionally to do, but they don't really have any applicability to Berkshire. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I agree totally. It's just -- well, you used to say that large amounts of money, they develop their own anchors. And you're just -- it kind of gets harder and harder. I've just seen genius after genius with a great record. And pretty soon, I got $30 billion and 2 floors of young men, away goes the good record, it's just the way it works. But your heart as the money goes up.

Warren E. Buffett
Chairman, President & CEO

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When Charlie was a lawyer -- initially, I mean, you were developing a couple of real estate projects. I mean, if I -- do you really want to make $1 million or 50% of $1 million and you're willing to work at it and you'll -- that's doable, but it just has no applicability to managing huge sums. I wish it did but it doesn't.

Charles Thomas Munger
Vice Chairman

Yes. Li Lu, using nothing but the float on his student loans, had $1 million, practically shortly after he graduated as a total scholarship student. He found just a few things to do and did them.

Warren E. Buffett
Chairman, President & CEO

Okay. Station 10.

Unknown Shareholder

Hello, Warren, Charlie. I'm [Luis Cobo] from Panama. I'm a proud Berkshire Hathaway shareholder since 10 years ago. And I've been looking at See's Candies, and I'm a pretty good fan of them. And I see Charlie is as well through our meeting. And even with all our consumption and the company has given us generous profits over the past decades, why do you think the company has not grown to the scale of Mars or HERSHEY'S? And what do you think we could do to make this company grow and become a bigger part of our company being such an amazing product?

Warren E. Buffett
Chairman, President & CEO

Well, we thought we had a dozen or so ideas over the years, and we used to really focus on it because it was a much more sizable part of our business. In fact, it was practically our only business aside from insurance. And like I say, we've had 10 or 12 ideas, some of them we've tried more than once. And as we've had a new manager, they've tried them and the truth is none of them really work. And the business is extraordinarily good in a very small niche. Boxed chocolates are something that everybody likes to receive or maybe give as a gift, both sides of it. And relatively, few of the people go on and buy to consume themselves. If I leave a box of chocolates open at the office, we've only got 25 people, but it's gone almost immediately. If I take it as a gift to somebody, they're happy to get it. And if you leave the box open at a dinner party, again, they're all gone. But those same people that so readily grab it when it's right there in front of them, do not walk out to a candy store very often and buy it just to eat themselves. They're not going buy it. It's very much a gift product, it does not grow worldwide. Very interesting thing, people in these -- the last time I checked, people in the West prefer milk chocolate, people in the East prefer dark chocolate, people in the West like big chunky pieces, people in the East will take miniatures. And it's -- we've tried to move it geographically many, many, many times because it would be so wonderful that -- when it works, it works wonderfully. But it doesn't travel that well. If we open a store in the East, we get enormous traffic for a while and everybody says, "We've been waiting for you to come." And then finally, we end up with a store that does X pounds per year when we need 1.5X in the same square footage to make terrific returns. And we've tried everything because the math is so good when it works. And overall, we have a business that doesn't -- well, chocolate consumption generally doesn't grow that much, but yes, it's -- yes, go ahead, Charlie.

Charles Thomas Munger
Vice Chairman

Well, we failed in turning our old candy company into Mars or HERSHEY'S for the same reason that you failed to get the Nobel Prize in physics and achieve immortality. It's too tough for us.

Warren E. Buffett
Chairman, President & CEO

But we put $25 million in doing it, it's given us over $2 billion of pretax income, well over $2 billion, and we've used it to buy other businesses. And if we were the typical company and bought that business,

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and tried desperately to make -- use all the retained earnings within the candy business, I think we'd have fallen on our face. I think that it just illustrates that all these formulas you heard or that's having a strategic plan to use all the capital, some businesses work in a fairly limited area that others really play out over. This Dr Pepper has a -- I don't know what the percentage is now, but it might be a 10% or 12% market share or something like that and -- in Dallas, or maybe it's 8% but -- and then you go to Detroit or Boston and it's less than 1%, I'm not sure about the numbers currently. But you'd think in a mobile society with Dr Pepper having been around since the time Coke was founded in 1886, it's amazing how certain things travel, certain things don't travel. With the candy bars, you mentioned HERSHEY, I mean, Cadbury doesn't do that well here and HERSHEY doesn't necessarily do that well in the U.K. And here we are, we all look alike but somehow, we eat different candy bars. We -- it's very interesting to observe.

And the idea that you have some formula for businesses that provide that each one should pursue the course they're on because they made it an X, they should try to find other ways to make it an X, we're quite willing to find it in A, B, C, D, E or F because like the money is fungible. And I think actually, it's worked very much to our advantage to have that philosophy. So anything further, Charlie?

Charles Thomas Munger
Vice Chairman

I once told a very great man at dinner after he'd written a very great book, I said, "You know, you're never going to write another great book like that." And he was deeply offended. And I've read his 4 subsequent bits of books and I'm totally right. To write one great book is a lot to do in one lifetime. And if people aren't holding back on you when they go do more, it's hard. But you want to make the most of the one -- first one you've got.

Warren E. Buffett
Chairman, President & CEO

Yes. You're lucky.

Charles Thomas Munger
Vice Chairman

Yes.

Warren E. Buffett
Chairman, President & CEO

We were very fortunate. I would have blown the chance to buy See's Candy, but Charlie said, "Don't be so cheap," basically. And we -- so we still got it at a pretty good price.

Charles Thomas Munger
Vice Chairman

And it's amazing how much we've learned over the years, and if we hadn't, the record would be so much worse. At any given time, what we already knew was not going to be enough to take us to the next step. That's what makes it difficult. Think of all the people you know that have tried to take one extra step and have fallen off a cliff.

Warren E. Buffett
Chairman, President & CEO

Well, on that happy note, we will conclude the meeting. Thank you. Thank you. Thank you but save some of it for next year, we may need it then. So than -- just give us a carryforward on the rest of it. Thank you. We'll come back. At 3:45, we will conduct the business of the meeting, and it doesn't -- we have no -- nothing on the proxy to vote on, but we will be back here in 15 minutes. And if you enjoy that process, you can stick around and watch us reelect our Board. Thank you. Thanks for coming.
[Break]

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Presentation

Rebecca K. Amick
Director of Internal Auditing

Yes, I do. As indicated in the proxy statement that accompanying the notice of this meeting that was sent to all shareholders of record on March 6, 2019, the record date for this meeting, there were 724,765 shares of Class A Berkshire Hathaway common stock outstanding, with each share entitled to 1 vote on motions considered at the meeting; and 1,371,697,551 shares of Class B Berkshire Hathaway common stock outstanding, with each vote entitled to 1/10,000th of 1 vote on motions considered at the meeting. Of that number, 503,181 Class A shares and 839,707,642 Class B shares are represented at this meeting by proxies returned through Thursday evening, May 2.

Warren E. Buffett
Chairman, President & CEO

Thank you. That number represents a quorum, and we will, therefore, directly proceed with the meeting.

First order of business will be a reading of the minutes of the last meeting of shareholders. And I recognize Mr. Walter Scott, who will place a motion before the meeting.

Walter Scott
Director

I move that the reading of the minutes of the last meeting of shareholders be dispensed with and the minutes be approved.

Warren E. Buffett
Chairman, President & CEO

Do I hear a second?

Unknown Attendee

I second the motion.

Warren E. Buffett
Chairman, President & CEO

Motion has been moved and seconded. We will vote on the motion by voice vote. All of those in favor say aye.

[Voting]

Opposed?

[Voting]

The motion's carried.

The next item of business is to elect directors. The shareholders present and who did not send in a proxy or wish to withdraw a proxy previously sent in, you may vote in person for the election of directors and other matters to be considered in this meeting. Please identify yourselves to one of the meeting officials in the aisles so that you can receive a ballot. I recognize Mr. Walter Scott to place a motion before the meeting with respect to election of directors.

Walter Scott
Director

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I move that Warren Buffett, Charles Munger, Greg Abel, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ron Olson, Walter Scott and Meryl Witmer be elected as directors.

Warren E. Buffett
Chairman, President & CEO

Is there a second?

Unknown Attendee

I second the motion.

Warren E. Buffett
Chairman, President & CEO

It's been moved and seconded that Warren Buffett, Charles Munger, Greg Abel, Howard Buffett, Steve Burke, Susan Decker, Bill Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Tom Murphy, Ron Olson, Walter Scott and Meryl Witmer be elected as directors. Are there any other nominations or any discussion? The nominations are ready to be acted upon. If there are any shareholders voting in person, they should now mark the ballot on the election of directors and deliver that ballot to one of the meeting officials in the aisles.

Ms. Amick, when you're ready, you may give your report.

Rebecca K. Amick
Director of Internal Auditing

My report is ready. The ballot of the proxyholders in response to proxies that were received through last Thursday evening cast not less than 543,703 votes for each nominee. That number exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

Warren E. Buffett
Chairman, President & CEO

Thank you, Ms. Amick.

Warren Buffett, Charles Munger, Greg Abel, Howard Buffett, Steve Burke, Susan Decker, Bill Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Tom Murphy, Ron Olson, Walter Scott and Meryl Witmer have been elected as directors.

We now have a motion from Walter Scott.

Walter Scott
Director

I move the meeting be adjourned.

Warren E. Buffett
Chairman, President & CEO

Is there a second?

Unknown Attendee

I second the motion.

Warren E. Buffett
Chairman, President & CEO

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Motion to adjourn has been made and seconded, we will vote by voice. Is there any discussion? If not, all in favor say aye.

[Voting]

All opposed, say no.
This meeting is adjourned. Thank you all. I hope I see you next year.

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