S&P Global
Market Intelligence

# Berkshire Hathaway Inc. NYSE:BRK.A

# Shareholder/Analyst Call

## Saturday, May 05, 2018 3:30 PM GMT

# Table of Contents

# Call Participants

## EXECUTIVES

**Charles Thomas Munger**
*Vice Chairman*

**Gregory Edward Abel**
*Former Chairman & CEO*

**Marc David Hamburg**
*Senior VP & CFO*

**Rebecca K. Amick**
*Director of Internal Auditing*

**Unknown Executive**

**Walter Scott**
*Director*

**Warren E. Buffett**
*Chairman, President & CEO*

## ANALYSTS

**Adam B. Bergman**
*Sterling Capital Management LLC*

**Adam Mead**

**Greggory Warren**
*Morningstar Inc., Research Division*

**Jonathan Brandt**

**Stephie Yu**

**Walter Raymond Obermeyer**
*Obermeyer Wood Investment Counsel*

## SHAREHOLDERS

**Freeda Cathcart**

**Sherman Silber**

**Unknown Shareholder**

## ATTENDEES

**Andrew Ross Sorkin**

**Becky Quick**

**Carol Loomis**

**Unknown Attendee**

# Presentation

**Warren E. Buffett**
*Chairman, President & CEO*

Good morning. I'm Warren. He's Charlie. Charlie does most things better than I do, but -- well, this one is a little tough. Charlie, maybe you can chew on that in a while. Okay.

At the formal meeting that will begin at 3:45, we will elect our 14 Directors. Charlie and I are 2 of them. And I would like to introduce the other 12. I'll do it now in alphabetical order. If they will stand as I announce their name. Well, hold your applause, maybe hard to do, but give it your best. And when we get all through it, then you can let loose. But we'll do this alphabetically.

Beginning with Greg Abel, if you will stand and stay standing; Howard Buffett; Steve Burke; Sue Decker; Bill Gates; Sandy Gottesman; Charlotte Guyman; Ajit Jain; Tom Murphy; Ron Olson; Walter Scott; and Meryl Witmer.

Let's see. This morning, we posted both our earnings and our 10-Q. And if we can put up Slide 1, you can take a look at what was reported. And as I warned you in the annual report, a new accounting rule was introduced at the beginning of this year, and it provides that our equity securities, whether we sell them or not, are mark-to-market every day. So we can have a gain or loss of a couple billion dollars in our equity securities portfolio and that day, according to the accounting principles now in effect, which are a change, will be recorded as making a couple billion dollars that day or losing a couple of billion. And I told you that would produce some very unusual effects from quarter-to-quarter. And it further explains why I like to release our earnings early Saturday morning and as well as the 10-Q to give people the chance to read through the explanation. Because if you just were handed this with a TV monitor at 3:30 in the afternoon or whatever it might be, you would report the net earnings figure understandably, very quickly, and it really is not representative of what's going on in the business at all. So if you look at the figure, operating earnings, which is what we look at, we actually earned a record amount for any quarter we've ever had. And that includes no realized gains or losses on securities or on the few remaining derivatives we have. You might leave that slide up there just a little longer, maybe this up.

The insurance underwriting, GEICO had quite a good-sized turnaround and profitability and a good gain, although not as big a gain as last year, which was a record in terms of policies in-force. And really, throughout most of our businesses, and the details are on the 10-Q, which is up on the -- on our website now, as you can see, the railroad was up significantly and we have -- most of our businesses tended to be up. Now we were aided in that in a material way by a reduction in the federal income tax rate from 35% to 21%. Our businesses were up significantly on a pretax basis, but again, it was further enhanced by the change in the income tax rate.

So that pretty well sums up the first quarter. We'll probably get some -- maybe we'll get some questions on that when we get into the question-and-answer section.

The questions we'll be getting, we've got the press over here and we have the analysts on my left, and of course, we have our partners out in front of me, and we will rotate among you. And the questions we get as we go through the next 6 hours or so, will, understandably relate to a lot of current events. You will -- we may get asked -- and we don't know the questions, but we may get asked about Fed policy or whether we're seeing any inflation or whether business is speeding up or down or the threats we may face competitively in our businesses as we go along. And anything goes on the questions, except we won't tell you what we're buying or selling. But it really can be a question sometimes of confusing the forest with the trees. And I would like to just spend just a couple of minutes giving you a little perspective on how you might think about investments as opposed to the tendency to focus on what's happening today or even this minute as you go through. And to help me in doing that, I'd like to go back to a little personal history, and we will start.

I have here a New York Times of March 12, 1942. I'm a little behind in my reading. And if you go back to that time, it was about 3 months since we got involved in a war, which we were losing at that point.

The newspaper headlines were filled with bad news from the Pacific. And I've taken just a couple of the headlines from the days preceding March 11, which I'll explain was kind of a momentous day for me. And so you can see these headlines, we've got Slide 2 up there, I believe. And we were in trouble, big trouble in the Pacific. There's only going to be a couple months later that the Philippines fell, but we were getting bad news. We might go to Slide 3 for March 9. I hope you can read the headlines anyway. The price of the paper is $0.03 incidentally. The -- let's see, we've got March 10 up there as a slide. When I get the advanced technology of slides, I want to make sure I'm showing you the same thing that I'm seeing in front of me.

So anyway, on March 10 when, again, the news was bad. Foe clearing path to Australia, and it was like it -- the stock market had been reflecting this. And I'd been watching a stock called Cities Service Preferred Stock, which had sold at $84 the previous year, and it sold at $55 early in January, 2 months earlier. And now, it was down to $40 on March 10. So that night, despite these headlines, I said to my dad, "Dad, I think I'd like to pull the trigger, and I'd like you to buy me 3 shares of Cities Service Preferred the next day." And that was all I had. I mean, that was my capital accumulated over the previous 5 years or thereabouts. And so my dad the next morning bought 3 shares. Let's take a look at what happened the next day. Let's go to the next slide, please. And it was not a good day.

The stock market, the Dow Jones Industrial had broke 100 on the downside. Now they were down 2 point -- 2.8 -- as you can see. But that was the equivalent of about a 500 point drop now. So I'm in school wondering what is going on, of course. Incidentally, you'll see on the left side of the chart, the New York Times put the Dow Jones Industrial average below all the averages they calculated. They had their own averages, which have since disappeared, but the Dow Jones has continued. So the next day -- we can go to the next slide, and you will see what happened. The stock that was at $39 -- my dad bought my stock right away in the morning because I'd asked him to, my 3 shares. And so I paid the high for today. That $38.25 was my tick, which is the high for the end. And by the end of the day, it was down to $37, which was really kind of characteristic of my timing in stocks that was going to appear in future years. But it was on the -- what was then called the New York Curb Exchange and became the American Stock Exchange.

But things, even though the war until the Battle of Midway, looked very bad. And if you will turn to the next slide, please, you'll see that the stock did rather well. You can see where I bought it $38.25. And then the stock went on actually to eventually be called by the Cities Service Company for over $200 a share. But this is not a happy story because if you go to the next page, you will see that I -- well, as they always say, it seemed like a good idea at the time. I mean -- so I was a loser. I made $5 on it. It was, again, typical of my behavior. But when you watch it go down to $27, it looked pretty good to get that profit.

But what's the point of all this? Well, we can leave behind the Cities Service story, and I would like you to again imagine yourself back on March 11, 1942. And as I say, things were looking bad in the European theater as well as what was going on in the Pacific. But everybody in this country knew America was going to win the war. I mean, it was -- we'd gotten blindsided, but we were going to win the war. And we knew that the American system had been working well since 1776.

So if you'll turn to the next slide, I'd like you to imagine that at that time, you would have invested $10,000, and you put that money in, in an index fund, we didn't have index funds then, but you in effect bought the S&P 500. Now I would like you to think a while and don't -- do not change the slide here for a minute. I'd like you to think about how much that $10,000 would now be worth if you just had one basic premise. Just like in buying a farm, you buy it to hold throughout your lifetime and depend -- and you look to the output of the farm to determine whether you made a wise investment. You look to the output of the apartment house to decide whether you made a wise investment if you buy an apartment, small apartment house to hold for your life. And, let's say, instead, you decided to put the $10,000 in and hold a piece of American business and never looked at another stock quote, never listened to another person give you advice or anything of the sort. I want you to think how much money you might have now. And now that you got a number in your head, let's go to the next slide and we'll get the answer.

You'd have $51 million, and you wouldn't have had to do anything. You wouldn't have to understand accounting. You wouldn't have to look at your quotations every day like I did that first day, when I already lost $3.75 by the time I came home from school. All you had to do was figure that America was going to do well over time, that we would overcome the current difficulties. And that if America did well, American business would do well. You didn't have to pick out winning stocks. You didn't have to pick out a winning time or anything of the sort. You basically just had to make one investment decision in your life. And that wasn't the only time to do it. I mean, I could go back and pick other times that would work out even greater gains.

But as you listen to the questions and answers we get today, just remember that the overriding question is how is American business going to do over your investing lifetime. I would like to make one other comment because it's a little bit interesting. Let's say, you've taken that $10,000 and you'd listened to the prophets of doom and gloom around you, and you'll get that constantly throughout your life, and instead, you used the $10,000 to buy gold. Now for your $10,000, you would've been able to buy about 300 ounces of gold. And while the businesses were reinvesting in more plants and new inventions came along, you would go down every year and you're looking in your safe deposit box, and you'd have your 300 ounces of gold. And you could look at it, and you could fondle it, and you could -- I mean, whatever you wanted to do with it. But it didn't produce anything. It was never going to produce anything. And what would you have today? You would have 300 ounces of gold just like you had in March of 1942. And it would be worth approximately $400,000.

So if you decided to go with a nonproductive asset, gold, instead of a productive asset, which actually was earning more money and reinvesting and paying dividends and maybe purchasing stock, whatever it might be, you would now have over 100x the value of what you would have had with a nonproductive asset. In other words, for every dollar you have made in American business, you would have less than $0.01 by -- of gain by buying in the store value, which people tell you to run to every time you get scared by the headlines or something of the sort. It's just remarkable to me that we have operated in this country with the greatest tailwind at our back that you can imagine. It's an investor's -- I mean, you can't really fail at it unless you buy the wrong stock or just get excited at the wrong time. But if you look at the cross-section of America and you put your money in consistently over the years, there's just -- there's no comparison against owning something that's going to produce nothing, and there -- frankly, there's no comparison with trying to jump in and out of stocks and pay investment advisers. If you'd followed my advice incidentally or this retrospective advice, which is always so easy to give, if you'd followed that, of course, you're -- there's one problem about it. Your friendly stockbroker would have starved to death. I mean, you could have gone to the funeral to atone for their fate. But the truth is you would have been better off doing this than a very, very, very high percentage of investment professionals who have done -- or people who have done their active [indiscernible]. It's very hard to move around successfully and beat really what can be done with a very relaxed philosophy. And you do not have to be -- you do not have to know as much about accounting or stock market terminology or whatever else it may be or what the Fed is going to do next time or whether it's going to raise 3x or 4x or 2x. None of that counts at all really in the lifetime of investing. What counts is having a philosophy that you stick with, that you understand why you're in it and you forget about doing things that you don't know how to do.

So with all those happy words, we will move on and start the questioning. And we'll start with Carol.

**Carol Loomis**

Good morning. In choosing a first question to ask each year, I look for a question that is definitely virtue related and is timely. And this question seems to fill a bill. The question came from [ William Anderson ] of Salem, Oregon, and he said, "Mr. Buffett, you have previously said that there are 2 parts to your job: overseeing the managers and capital allocation. Mr. Abel and Mr. Jain now oversee the managers, which leaves you with capital allocation. However, you share capital allocation with Ted Weschler and Todd Combs. Question, does all that mean you are semiretired? Or if not, please explain."

**Warren E. Buffett**
*Chairman, President & CEO*

I've been semiretired for decades. The answer is that I was probably -- well, it's hard to break down the percentage of the time that I was involved and what now the jobs that are now done by Ajit and Greg in the case of investing. The subpart of the job, that is done by Ted and Todd. Ted and Todd each manage $12 billion or $13 billion. So in total, that's $25 billion. And we have an equity of $170-some billion probably now and $20 billion in longer-term bonds and another $100 billion in cash and short-term. So they're managing $20 billion, $25 billion, and doing a very good job. And I'd still have the responsibility basically for the other $300 billion. So I think Charlie will tell you. In fact, I'd like him to comment. Nothing's really changed that much. We've got -- clearly, we've got 2 people in Ajit and Greg that are smarter, more energetic, just bring more to the job every day. But they don't bring too much because the culture is that our managers are running their business. But there's a lot, there's a good bit to oversee. So they do a superb job. And Ted and Todd not only do a great job with the $12 billion or $13 billion each, they start off with a couple of billion each, not that it's all been the growth of $2 billion. But they also do -- have done a number of things for Berkshire that they do it cheerfully, but more important, very skillfully. So there's just -- there's one thing after another that I will have them looking into or working on. And sometimes I steal their ideas and -- but I think, actually, semiretired is probably -- touches me at my most active point. I think your question has got a good point. Okay. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I've watched Warren for a long time. And he sits around reading most of the time and thinking. Every once in a while he talks on the phone or talks to somebody, I can't see any great difference. A lot of people -- part of the Berkshire secret is that when there's nothing to do, Warren is very good at doing nothing.

**Warren E. Buffett**
*Chairman, President & CEO*

I'm still looking forward to being a mattress tester. Okay. Jonathan Brandt?

**Jonathan Brandt**

Given the growth in airplane build rates, it seems surprising that Precision Castparts has been doing better on the top or bottom line. I understand the issue with the bumpy transition from old to new programs, but I've also heard from industry sources that Precision's market position is not as strong as it used to be amid intensifying competition and some technological disruption. What does Precision need to do to solidify and strengthen its preeminent position with its aerospace customers so that it can deliver the growth you expected when Berkshire acquired it? More generally, 2 years after the acquisition, what is your outlook for that business?

**Warren E. Buffett**
*Chairman, President & CEO*

Tell me the last part again, the outlook?

**Jonathan Brandt**

More generally, 2 years after the acquisition, what is your updated outlook for that business longer term?

**Warren E. Buffett**
*Chairman, President & CEO*

Longer term, I think -- and then the reasonably shorter term. It's a very, very good business. I mean, you were -- you mentioned aircraft, but we get another industry, but certainly, aircraft is the most important. There are manufacturers that are very dependent on both the quality of the parts and the promptness of delivery. You do not want to have an aircraft worth $75 million or $100 million or maybe $200 million and be waiting for a part or something of the sort. So its reliability is -- both in terms of quality and delivery times and all of that sort of things is enormously important. And we get contracts that extend out many years. And sometimes -- I mean, we will get them well before the plane even starts in production. So there's very long lead times. And we have found in the last year -- thought it earlier, but I know of some specific cases in the last year where other suppliers have failed in their deliveries, and then the manufacturers come to us and say, "We would like you to help us out." And we say, "Well, we're glad to help you out, but we'd like about a 5-year contract if we're going to do it because we're just not going to make up for this other guy's shortfalls periodically." But that sort of thing has a very long lead time. The business is a very good business. One thing you will see, their earnings chart was about $400 million, a little over $400 million a year of intangible, not deductible, in that case, amortization of goodwill, which is really -- is not an economic cost that might be -- we have a significant amount of that through Berkshire. But by far, the largest amount is related to the Precision acquisition. So whatever you see, you can add about $400 million. That, in my view, is not an economic expense, but the accountants would argue otherwise. But it's our money. So we'll take my view. They -- Mark Donegan, who runs that operation, is incredible. And he has been -- not only he's a fabulous manager, I wouldn't have bought it without him in charge, he also has been very helpful to us in other areas, and he loves to do it. So you can't beat him, both as a manager and as well in operation. But with his devotion to really doing everything that will help Berkshire, it was -- it's a very good acquisition with very long tails to the products that are being developed. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I think we buy another one just like it tomorrow if we had the chance.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, that's the answer. Man of few words, but he gets the point. Okay, now we will go to the shareholder in Station 1. I believe that's probably up here to my right.

**Unknown Attendee**

This is [ Chao ] from [ Wuxi China Saud Capital]. I've been in the meeting for 12 years, wish you and Charlie good health, so we're going to see you both run the meeting for 12 more years.

**Warren E. Buffett**
*Chairman, President & CEO*

Thank you.

**Unknown Attendee**

Quick question. We know both you and China delegations, U.S. and China delegations are in China for intense discussion on so-called a trade war. Let's go one step beyond the trade war. Do you think there's a win-win situation for both countries? Or the world is just too small for both to win? And do we have to revisit your 1942 chart again?

**Warren E. Buffett**
*Chairman, President & CEO*

I'd like to just mention one thing. In August, I'm going to be 88, and that will be the eighth month of the year. And it's in a year that ends with an 8, and as you and I both know, 8 is a very lucky number in China. So if you find anything over there for me, this is the time we should be acquiring something. All those 8s.

**Unknown Attendee**

We'll do. We'll do.

**Warren E. Buffett**
*Chairman, President & CEO*

The United States and China are going to be the 2 superpowers of the world economically and in other ways for a long, long, long time. We have a lot of common interests, and like any 2 big economic entities, there are times when there will be tensions. But it is a win-win situation when the world trades basically, and China and the U.S. are the 2 big factors in that. But there's plenty of other citizens of the world that are involved in how this comes out. And there is no question -- and a nice thing about this country, I think, is that both Democrats and Republicans, basically, on balance, believe in the benefits of free trade.

And we will have disagreements with each other, we'll have disagreements with other countries on trade, but it's just too big and too obvious for -- that the benefits are huge. And the world is dependent on, in a major way for its progress, that 2 intelligent countries will do something extremely foolish. We both may do things that are mildly foolish from time to time, and there is some give-and-take, obviously, involved. But U.S. exports in 1970 and U.S. imports in 1970 were both about 5% of GDP. Here, we were selling 5% of our GDP and buying a 5% of our GDP, basically. Now people think we don't export a lot of things. Our exports are 11 and a fraction percent of GDP. They're more than double the share of this rising GDP. But the imports are about 14.5%. So there's a gap of 3% or thereabouts. And I would not like that gap to get too wide. But when you think about it, it's really not the worst thing in the world to have somebody send you a lot of goods that you want and hand them little pieces of paper. I mean, because the balancing item is if you have a surplus or a deficit in your trade, you're going to have a surplus of investment. And so the world was getting more claim checks on the United States. And they -- to some extent, they buy our government securities, they can buy businesses. And over time, you don't want the gap to get to be too wide because the money claim checks you were giving out to the rest of the world could get a little unpleasant under some circumstances. But we've done remarkably well with trade. China has done remarkably well with trade. The countries of the world have done remarkably well with the trade. So it is a win-win situation. And the only problem gets to be when one side or the other may want to win a little bit too much, and then you have a certain amount of tension. But we will not sacrifice the world. I mean, we'll not sacrifice world prosperity based on differences that arise in trade. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

I think that both countries have been advancing, and of course, China is advancing faster economically because it's starting from a lower base. And they've had a little more virtue than, frankly, anybody else in the world and having a high savings rate. And, of course, a country that was mired in poverty for a long, long time and that assimilates the advanced technology of the world and has a big savings rate is going to advance faster than some very mature company like Britain or the United States. And that's what's happened. But I think we're getting along fine, and I'm very optimistic that both nations will be smart enough to realize that the last thing they should do is having the wealth of the other.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Becky Quick.

**Becky Quick**

This question comes from [ Kirk Thompson ]. He says, "Warren, in this year's Annual Letter to Shareholders, you referenced both cheap debt and a willingness by other companies to leverage themselves as competitive examples as to why it's hard to get more acquisition deals done. It seems like the trust and prestige of doing a deal with Warren Buffett and Charlie Munger allow Berkshire to get a hometown discount and beat out other firms that might pay a little more to a prospective seller. Have you given thought to having other Berkshire managers have more public exposure so future generations of successful business owners continue to bring deal opportunities to Berkshire like they have in prior decades?"

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. That sort of reminds me of -- was it Tony O'Reilly, remarked one time about the responsibility of the CEO that the very first job of the CEO was to search through his organization and find that person who had the initiative and the brains, the determination, all of the qualities to be his logical successor. And then fire the guy. The -- there's no question. I think the reputation of Berkshire is being a very good home for companies, particularly private companies, a good home for companies. I don't think that reputation is dependent on me or Charlie. It may take a little -- there'll be a little testing period for whoever -- takes over in that respect. But basically, we've got the money to do the deals. We'll have the money to do the deals. Subsequently, people can see how our subsidiaries operate in the future. And the truth is that I think some of the other executives aren't going -- aren't getting better known. But there will be a -- I'll tell you this, if things get bad enough, you don't have to worry about [indiscernible] or what. So I do not worry about the so-called deal flow, which is a term I hate. But I don't think that -- I think that's dependent on Berkshire and not dependent on me. And as I've mentioned, my phone isn't ringing off the hook with good deals. So apparently, this big winning personality or something is not delivering for you. So maybe the next person will be even more, get even more calls. I -- Berkshire, the reputation belongs to Berkshire now. And we are, for somebody that cares -- not a lot of business that they and their parents or maybe their grandparents lovingly built over decades. If they care about where that business ends up being after for one reason or another, they don't want to keep it or can't keep it in the family, we absolutely are the first call, and we will continue to be the first call whether Charlie or I answer the phone or somebody else does. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, a lot of these subsidiaries, and for a long time, already been making all kinds of acquisitions with people they know and we don't. So it's already happening. And in fact, it's happening more there than it is at headquarters, so.

**Warren E. Buffett**
*Chairman, President & CEO*

Don't tell them, Charlie.

**Charles Thomas Munger**
*Vice Chairman*

You're getting your wish. And it is weird that about 99% of the public companies that change hands in terms of control, change hands in the sort of auction provided -- presided over by an investment banker. And the people that buy are usually just leverage it to the gills, and they're assessing a little better, they releverage it. And that money is coming out of charitable endowments and pension plans where making these highly leveraged investments and all these companies changing hands at very high prices. Sooner or later, this is not going to work perfectly, and it's going to have an unpleasant episode. And I think we'll be around and in good shape at that time.

**Warren E. Buffett**
*Chairman, President & CEO*

There was one fellow who came to me many years ago, and he had a wonderful business. And he had been worried because he had seen a friend of his die, and the problems that arose later when the managers, to some extent, tried to take advantage of the widow, and it became a disaster. So he said he thought about it a lot the previous year and decided he didn't want to sell the business to a competitor who would be a logical buyer because they would fire all of his people, and the CFO that would remain all -- up and down the line, they'd all acquire his people. He didn't want to do that to his people. And then he got -- and he didn't want to sell it to a private equity firm because he thought they'd leverage it up. He never liked to leverage that much. And then they'd just resell it later on to somebody, so it would be totally out of control of what he want to do. And he wanted to keep running it himself. So he said, "Warren," he said, "it isn't that you're such a great guy." He said, "It's just that you're the only one left." So Berkshire will continue to be the only one left, in many cases.

[ Gary Ranson ]?

**Unknown Attendee**

Warren, in your annual letter, you wrote about a potential for a $400 billion national catastrophe event, something out in the tail of the loss distribution. I can think of another risk that could have a similar order of magnitude, and that would be cyber risk. I'm sure all your managers have taken steps against that potential. But in -- out in tail of the cyber risk distribution, it could hit a lot of industries, a lot of your companies. So how do you think about or prepare for the big one in cyber?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Well, I include it incidentally in my -- that part of our annual report where it was roughly nobody knows the answer on this. I mean, I could stick down 2% and -- somebody else much smarter in insurance would stick down a different figure. But I think it's about a 2% risk of what I'll call a $400 billion super cap of all time. And -- but cyber is in that equation. I mean, that's not just earthquakes and that sort of thing. And frankly, I don't think we or anybody else really knows what they're doing when writing cyber. I mean, we -- it is just very, very, very early in the game, and we don't know what the interpretations of the policies necessarily will be. We don't know the degree to which there'll be, what -- there'll be correlated incidents, which we don't really think are correlated now or haven't had the imagination to come up with. We know that every year, when I go and hear these people from the CIA or whatever it may be, they tell me that the offense is -- add a good defense and will continue that way. And I can dream of a lot of cyber incidents, which I'm not going to spell out here because people that have twisted minds may be -- they probably got more -- way more ideas than I've got. But I don't believe in feeding them any. But it's a business where we don't -- we have a pretty good idea of the probabilities of a quake in California, the probabilities of 3 or 4 hurricane hitting Florida or wherever it may be. We don't know what we're doing in cyber. And we try to keep -- we don't want to be a pioneer on this. We do some business in that arena in Berkshire Hathaway, especially, but if you're doing something for competitive reasons, which I'm okay with, but when I'm doing something that people told me is a competitive necessity, we are going to try not to have -- we don't want to be #1 or #2 or #3 in exposures on it. And I don't -- and I am sure we are enough in cyber. But I don't -- I think anybody that tells you now that they think they know in some actuarial way, either what general experience is likely to be in the future or what the worst case would be, I think is kidding themselves. And that's why that's one of the reasons I'd say that a $400 billion event has a -- I think, has roughly a 2% probability per year event of happening. Cyber is an uncharted territory, and it's going to get worse, not better. And then the question is whether if we have a whole bunch of $25 billion commercial limits out there whether there's some aggregation that we didn't foresee or that the courts interpret those policies differently, then they are generally going to give the benefit of the doubt to the insured. So you're right in pointing that out. That's a very material risk, which didn't exist 10 or 15 years ago. And it will be much more intense as the years go along. And all I can tell you, [ Gary ], is that, that's part of my $400 billion, of my 2%. But I think we've got different guesses, it's just as likely that yours is right than mine on that. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Yes. Something that's very much like cyber risk is you got computers programmed to do your security trading, and your computer goes a little wild from some error. That's already happened, at least once where somebody just was fine one morning, and by the afternoon, they were broke because some computer went crazy. We don't have any computers we allowed to go big automatically trading securities. I think, generally, Berkshire is less likely than most other places to be careless in some really stupid way.

**Warren E. Buffett**
*Chairman, President & CEO*

I do think if there is a mega cap from cyber, and let's say it hits $400 billion, I do not think we'll have more than 3%.

**Charles Thomas Munger**
*Vice Chairman*

No, no. We'll get our share.

**Warren E. Buffett**
*Chairman, President & CEO*

And -- but it will destroy -- what will destroy a lot of companies that we will actually -- if we had a $12 billion loss, I would think, except for the new accounting rule, but I really, from the what I call operating [indiscernible], we would probably still have a reasonable profit that year. I mean, we're in a different position than any insurance company I know of in the world in our ability to handle the, really, super, super cap.

Okay. Shareholder from Station 2.

**Charles Thomas Munger**
*Vice Chairman*

Let me point out that the main shareholder to my right here has almost always net worth in one security. That's likely to be more carefully managed than some public place with people just passing through.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. You don't want a guy that's 64, and that's going to retire at 65. A lot of decisions, you really don't him or her to be making.

Station 2?

**Walter Raymond Obermeyer**
*Obermeyer Wood Investment Counsel*

Wally Obermeyer, Obermeyer Wood Investment Counsel, Aspen, Colorado. Warren and Charlie, you 2 have demonstrated great talent in private sector capital allocation and shown the world the power of excellence in this area. Do you think there is a similar opportunity for outstanding capital allocation in the public sector at both the state and federal levels? And if so, what approach and/or changes would you suggest for society to achieve these benefits?

**Charles Thomas Munger**
*Vice Chairman*

That's too tough. Why don't we go on to a new question?

**Walter Raymond Obermeyer**
*Obermeyer Wood Investment Counsel*

[indiscernible]

**Warren E. Buffett**
*Chairman, President & CEO*

I have nothing to add. I don't mean to be unfair to others. Somebody asked you a question. But it is unfortunately an entirely different game, and the electorate, the motivations are different. The terms, the reward system is different. I mean, everything is different. And if we knew how to solve that, we wouldn't -- we can't add anything to what you add. I'm sorry on that.

Okay. Andrew?

**Andrew Ross Sorkin**

Warren, this question comes from [ Paul Speaker ] of Chicago, Illinois. He may be here today. He writes, "One of your most famous and perhaps most insightful quotes goes as follows: should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks. In light of the unauthorized accounting scandal at Wells Fargo of its admission that it charged customers for duplicate auto insurance, of its admission that it wrongly fined mortgage holders in relation to missing deadlines caused by delays that were its own fault, of its admission that it charged some customers improper fees to lock in mortgage interest rates, of the sanction placed upon it by the Federal Reserve prohibiting it from growing its balance sheet and the more than recent $1 billion penalty leveled by federal regulators for the aforementioned misbehavior. If Wells Fargo Company is a chronically leaking boat, at what magnitude of leakage would Berkshire consider changing vessels?"

**Warren E. Buffett**

*Chairman, President & CEO*

Well, Wells Fargo is a company that proved the efficacy of incentives, and it's just that they had the wrong incentives. And that was bad. But then they committed a much greater error, and I don't know exactly how or who did it or when. But if ignoring the fact that they had a faulty incentive system, which was incenting people to do things that were kind of crazy like opening nonexisting accounts, et cetera, and that is a cardinal sin at Berkshire. We know people are doing something wrong, right as we sit here at Berkshire. You can't have 377,000 employees and expect that everyone is behaving like Ben Franklin or something out there. They -- we -- I don't know, whether there are 10 things being done wrong as we speak or 20 or 50. The important thing is we don't want to incent any of that if we can avoid it. And if we find that's -- when we find it's going on, we have to do something about it, and that is absolutely the key to it. And Wells Fargo didn't do it. But Salomon didn't do it. And the truth is, we've made a couple of our greatest investments where people have made similar errors. We bought our American Express. That was the best investment I ever made in my partnership years. We bought our American Express stock in 1964 because somebody was incented to do the wrong thing in something called the American Express Field Warehousing Company. We bought a very substantial amount of GEICO we bought but became half of GEICO for $40 million because somebody was incented to meet Wall Street estimates of earnings and growth, and they didn't focus on having the proper reserves. And that caused a lot of pain at American Express in 1964. It caused a lot of pain at GEICO in 1976. It caused the layoff of a significant portion of the workforce, all kinds of things. But they cleaned it up. They cleaned it up, and look where American Express has moved since that time. Look at where GEICO has moved since that time. So the fact that you are going to have problems at some very large institution is not unique. In fact, almost every bank has -- all of the big banks have had troubles of one sort or another. And I see no reason why Wells Fargo as a company from both an investment standpoint and a moral standpoint going forward is in any way inferior to the other big banks with which it competes. So they've made a big mistake. It cost -- I mean, we still got -- I mean, we have a large unrealized gain in it. But that doesn't have anything to do with our decision-making. But the -- I like it as an investment. I like Tim Sloan as a manager. And he is correcting the mistakes made by other people. I tried to correct mistakes at Salomon and I had terrific help when [ Eric Muan ] as well as a number of people, [indiscernible], I mean, that is going to happen. You try to minimize it. Charlie says that an ounce of prevention isn't worth a pound of cure. It's worth about a ton of cure. And we have to jump on everything. He's pushed me all my life to make sure that I attack unpleasant problems that surfaced, and that's sometimes not easy to do when everything else is going fine. And at Wells, they clearly -- and I don't know exactly what, but they did what people at every organization have sometimes done. But it got accentuated to an extreme point. But I see no reason to think that Wells Fargo, going forward, is -- other than a very, very large, well-run bank that had an episode in its history it wished it didn't have. But GEICO came out stronger. American Express came out stronger. It's a question of what you do when you find the problems. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I agree with that. I think Wells Fargo is going to be better going forward. It would have benefited if these leaks had never been discovered.

**Warren E. Buffett**
*Chairman, President & CEO*

Or happened.

**Charles Thomas Munger**
*Vice Chairman*

Yes. So I think it's -- but I think Harvey Weinstein has done a lot for improving behavior, too. It's -- it was clearly an error, and they're acutely aware of it and acutely embarrassed. And they don't want it to ever happen again. If I had to say which bank is more likely to behave the best in the future, it might be Wells Fargo of all of them.

**Warren E. Buffett**

*Chairman, President & CEO*

This New York Times that I have here from March 12, 1942, if you go toward the back of it, in the classifieds section, you have one big section says help, wanted male; and another one that says, help, wanted female. Was the New York Times doing the right thing in those days? I think the New York Times is a terrific paper, but people make mistakes and the idea of classifying between taking ads and saying well, we'll take them and divide them up between men and women, what jobs do you think are appropriate or that the advertising is appropriate. We do a lot of dumb things in this world, and GEICO, as I say, and in the early 1970s, they just ignored, and you can do it, the setting of proper reserves, which mean they charged the wrong price to new customers because they thought their losses were less than they were. And I'm sure some of that may have been a desire to please Wall Street just because they don't want to face the -- how things were going. But it came out incredibly stronger. Now it's got 13% of the households in the United States insured, and it came out with an attention to reserves and that sort of thing. But that was heightened by the difficulties that they found themselves in when they almost went bankrupt.

**Charles Thomas Munger**
*Vice Chairman*

It was a lot more stupid than Wells Fargo. It was really stupid what they did way back, right?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. They had the world by the tail, and then they quit looking at the reserves and all. But it was -- American Express was just picking up a few dollars by having a field warehousing company in 1963. And they were worried whether it was going to sink the company. And when some guy named [ Tino De'Angeles ] and I think it was Bayonne, New Jersey. In fact, I went to the annual meeting in 1964 of American Express after the scandal developed. And somebody asked if the auditor would step forward. And the auditor, from one of the big firms, which I won't mention, came up to the microphone. And somebody said, "How much did we pay you last year?" And the auditor gave his answer. And then the questioner said, "Well, how much extra would you have charged us to go over to Bayonne, which was 10 miles away, and check whether there's any oil in the tanks?" So it was something -- a tiny little operation, some guy was calling in from a bar in Bayonne and telling them this phony stuff was going on, and they didn't want to hear it. They shut their ears to it. And then what emerged was a great company after this kind of what they thought was a near-death experience. So it's -- we're going to make mistakes. I will guarantee you that we will get some unpleasant news at Berkshire. I don't know what it'll be. Most important thing is we do something about it. And there've been times when I procrastinated, and Charlie has been the one that jabs me into action. And so he's performed a lot of services you don't know about. Okay. Gregg, Gregg Warren.

**Greggory Warren**
*Morningstar Inc., Research Division*

Warren, I have a little bit of a follow-up on Becky's question. At the 2014 Annual Meeting as well as this morning, you noted that the power of the Berkshire brand and its reputation as well as the strength of Berkshire's balance sheet, what a lot of the companies' next managers replicate many of the advantages that have come with your being the face of the organization. One of which has been an ability to extract high rents from firms in exchange for capital infusion and the Buffet's seal of approval during times of financial distress. I buy the argument about the strength of the balance sheet and believe that deals will continue to be done with sellers still lining up to become part of the Berkshire family, especially if the company's next managers are allowed to keep a ton of cash on hand. But I'm not entirely convinced that they'll be able to garner the same 8%, 9%, 10% coupons as well as other add-ons that you've been able to extract from firms like Goldman Sachs and Bank of America in times of distress. I'd expect those rents to be at least a few percentage points lower once you're no longer running the show. That is until those managers build up a reputation to warrant higher returns. Am I right to think about it that way?

**Warren E. Buffett**
*Chairman, President & CEO*

I'm not sure. When we -- you mentioned Goldman Sachs. We also dealt with General Electric in September, early October of 2008. We probably could have actually extracted better terms. I think it might have been counterproductive in the end. But I was -- we would have done better incidentally, financially, if we'd really waited until the panic developed further because I didn't know how far it would develop. But we could have made a lot better purchases 3 or 4 or 5 months later than we did at that time. And also we did not want to do something that looked to be so high as to -- and make the transaction disadvantageous to Goldman or to GE. They were going to take the terms we offered. But we actually didn't push it to the limit because there really wasn't anybody else around. I think -- and we're working on something right now but probably won't happen. It's not huge. But actually, in this case, both Todd and Ted have brought deals to me. One of them brought something to me, and he was thinking -- and the same terms that I got -- was thinking about. And he's the one that returned the calls that he had received about a transaction. and I do not think the party on the other side is going to care about the fact that they had him on the phone rather than me on the phone. I -- there may -- it could be just a little bit at certain times in history, but we will continue to have our standards of what we think money is worth at any given time. And Ted and Todd think just as well about that as I do. And there will be times, very occasionally, when our phone will ring a lot, and I don't think they'll hang up because I don't answer because they need the money. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, the times he is referring to, a lot of them were like worst in 50 years. So that's a really rare kind of an occurrence, and we didn't make all that many deals. So I think he's right. It'll be harder for us to make similar deals in the future.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. The problem is the son's involved now more than the problem of designing what the proper term should be. And sometimes we can get what we think is appropriate. Sometimes we -- most of the time today, we can't. But you may see a transaction or 2 that not in terms of buying business but in terms of securities that strength is perfectly decent ways to invest Berkshire's money. And they may well have come through Todd or Ted, and sent it directly to me. I'd like to think I'll be missed a little bit, but I -- you won't notice it.

Okay. Station 3.

**Unknown Attendee**

I'm [ John Lichter ] from Boulder, Colorado. Mr. Buffett, are you still involved in pricing decisions at See's Candies and The Buffalo News? And with one other Berkshire subsidiaries, do you take more than a hands-off approach?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. You're correct that I had, one time and for some -- quite a while, both Charlie and I took part in the pricing decisions at See's Candy. And certainly, for some years. It's really when the question of the survival of The Buffalo News was really in question, I definitely took part of most decisions. In both cases, we had good managers. But we still wanted to -- we thought those decisions were important. But it's been a long, long time, very long time since we participated in anything like that. And I can't tell you what the per pound price is for See's Candy, which is because people, and you're invited to join this group, send me free candy from time to time. And I can't -- really, I can't tell you the prices. At The Buffalo News, I mean, all I know is it's very, very, very hard to move our prices on advertising, generally. So we -- the only thing is Ajit -- and I talk frequently, and if there's some very big risk -- if somebody wants a $5 billion cover on chemical plant in some way excess or loss of over $3 billion or something, we have a certain amount of fun with him deciding on the price in his head, and I decide in my head, and then we compare notes. That's -- it's the kind of risk that you really can't look up in a book and see actuarially what is fairly -- the parameters are fairly likely to be. I enjoyed thinking through the pricing of that. And I particularly enjoy comparing it with Ajit, so that -- these are just oddball situations. But we do that sort of thing, and we've done it for 3 decades. And it's part of the -- it's part of the fun of my job. The Candy prices, if you got to complain about those, you have to go to Charlie.

**Charles Thomas Munger**
*Vice Chairman*

Well, the answer is, Warren is still doing it in talking to Ajit. And well, that's because Ajit likes it that way. We are in a very peculiar place where the -- where Warren's contact with the various people elsewhere in the organization largely depends on what they want, not what he wants. It's very unusual, and it's worked beautifully.

**Warren E. Buffett**
*Chairman, President & CEO*

The CEO of one of our most successful subsidiaries. I may have talked to unless I saw him here at the center hall. I probably talked to him 3 times in the last 10 years. And he does remarkably well. He might have done even better if I hadn't talked to him those 3 times. And on the other hand, Ajit and I talk very, very frequently, and he's got the kind of business side, hey, I do know -- I know some -- I know more about the insurance business than I know about maybe the other business. And it's interesting, and we are evaluating things that you don't look up in a book. I mean, the actuarial talent is not what's important in the things that Ajit talks to me about. It's probably important throughout our insurance operation. But in these, particular cases, we're making judgments, and his judgments are better than mine. But I'd like to -- I just like to hear about them, they're interesting propositions.

Okay. Carol?

**Carol Loomis**

This question comes from a Berkshire shareholder named [ Jack Ciesielski ]. He's a well-known accounting expert who, for many years, has written the Accounting Observer. Mr. Buffett, in this year's shareholder letter, you have harsh words for the new accounting rule that requires companies to use market-value accounting for their investment holdings. For analytical purposes, you said Berkshire's bottom line will be useless. I'd like to argue with you about that. Shouldn't a company's earnings report say everything that happened to and within a company during an accounting period? Shouldn't the income statement be like an objectively written newspaper informing shareholders of what happened under the management for that period, showing what management did to increase shareholder value and how outside forces may have affected the firm? If securities increased in value, surely, the company and the shareholders are better off. And surely, they're worse off if securities decreased in value. Those changes are most certainly real. In my opinion, ignoring changes in the way that some companies ignore restructuring costs is censoring the shareholders newspaper. So my question is, how would you answer to what I say?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, my answer to the question -- what my answer would be the answer to what he said. The -- I would ask Jack if we've got $170 billion of partly owned companies, which we intend to own for decades and which we expect to become worth more money over time, and when we reflect the market value in our balance sheet, does it make sense to, every quarter, mark those up and down through the income account when, at the same time, we own businesses that have become worth far more money in most cases and become -- since we bought, you name the company, just take GEICO, an extreme case. We bought half of the company for $50 million, roughly. Do we want to be marking that up every quarter through the value, and having it run through the income account? That becomes an appraisal process. There's nothing wrong with doing that in terms of evaluation. But in terms of value -- and you can call it gain in net asset value or loss in net asset value. That's what a closed end investment fund or an open end investment fund would do. But to run that through an income account, if I look at our 60 or 70 businesses or whatever number there might be, and every quarter, we mark those to market, we would have, obviously, a great many, in certain cases, where over time we'd have them at 10x what we paid. But how quarter-by-quarter we should mark those up and run it through the income account where 99% of investors probably look at net income as being meaningful in terms of what has been produced from operations during the year? I think it would be -- well, I can say it would be enormously deceptive. I mean, in the first quarter of this year, you saw the figures earlier where we had the best, what I would call, operating earnings in our history. And our securities went -- were down $6 billion or whatever it was. The -- to keep running that through the income account every day, you would say that we might have made it on Friday. We probably made $2.5 billion. Well, if you'll -- if you have investors and commentators and analysts and everybody else working off those net income numbers and trying to project earnings for quarters and earnings for future years to the $0.01, I think you're doing a great disservice by running those through the income comp. I think it's fine to have marketable securities on the balance sheet. The information available is through our market value, but we have businesses there. If we were -- we never would do it. But if we were to sell half, we'll say if the [indiscernible] we would receive more than we carry it. We turn -- we could turn it into a marketable security, and it would look like we made a ton of money overnight or if we were to appraise it every 3 months and write it up and down. A, it could lead to all kinds of manipulation; but b, it would just lead to the average -- to any investor being totally confused. I don't want to receive that in that manner. And therefore, I don't want to send it out in that manner. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, to me, it's obvious that the change in valuation should be noted, and it is and always has been goes right into the net worth figures. So the questioner doesn't understand his own profession. I'm not supposed to talk that way, but it slips out once in a while.

**Warren E. Buffett**
*Chairman, President & CEO*

Sometimes he even gives you the push.

Okay, Jonathan?

**Jonathan Brandt**

McLane's core operating margins have dropped about 50% from where they've generally been since acquisition. Could you elaborate on the competitive pressures in the grocery and convenience store distribution business that have caused deterioration in profits? And do you expect the margin structure of that business to eventually get back to where it was? Or is this the new normal?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, I don't know the answer to the second part about the future, but there's no question that the margins have been squeezed. They were very, very narrow. As you know, they were about $0.01 on $1 pretax. And they have been squeezed from that. Payment terms get squeezed. And in some cases, we have fairly long-term contracts on that. So we go on for 5 years, and then it's a very, very tight margin business. And the situation is even worse than you portray because within McLane, we have a liquor distribution business in a few states. And that business has actually increased its earnings moderately, and we've added to that business. So within McLane's figures, there are about $70 million or so pretax from the liquor part of that, nothing to do with the massive part you're talking about in terms of food distribution. So it's even -- the decline is even greater in what you're referring to than you've noticed, and that's just become very, very much more competitive. And we have to decide. If you look at our competitors, they're not making much money either. And that's capitalism. I think there comes a point where the customer says, "I'll only pay x." And you have to walk away, and there's a great temptation when you're employing, particularly employing thousands of people, and you build distribution to some of these and all of that sort of things, take care of them. To me, what you'd like to term is irrational competition. But that is capitalism, and you're right. We took -- the earnings went up quite a bit from the time we bought it, and we're still earning more than then. And we people made a lot of money over time. But as I said, a fair amount of that is actually coming from liquor distribution, activity in about 4 states that we purchased very well run, and we will do our best to get the margins up. But I would not -- I could not tell you, give you a really -- your guess is almost as good as mine or better than mine maybe as to what margins will be in that distribution business 5 years from now. It's a very essential service, we do $40-some billion, and we move more of the product of all kinds of companies that names are known to you than anybody else. But when you get Kraft Heinz, for that matter, or Philip Morris or whomever it may be, on one side of the deal and you get Walmart and some other -- 7-Eleven on the other side of the deal, sometimes they don't leave you very much room in between. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

I think you've described it very well.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Station 4.

**Jonathan Brandt**

Charlie and Warren, I know it seems a little bit out of order, but I'm a huge fan of yours, Charlie, mostly, for your 25 cognitive biases. I'm from Seattle, Washington. I run a 1-person digital marketing firm that specializes in Facebook ads and e-mail marketing. I use these a lot. Your breakdown of Coca-Cola was really, really solid. And I use that as reference when looking to how to understand the mechanics of my clients' products and how to promote them. So I'm fairly certain that your cognitive biases work for Internet-related companies. Now that you're partnering with Amazon in health care. I'm curious, have you started to understand how to apply these biases to Internet-related companies? Or is there another set of tools you use to decide if you understand a business? Because you guys talk a lot about not investing in businesses that you don't understand.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, health care is that -- we don't plan to start health care companies or necessarily insurers or anything. We simply have 3 organizations with leaders that I admire and trust and it mutually goes around all 3. And we hope to do something which Charlie correctly would probably say is almost impossible to change in some way, a system, which is taking 5% of GDP in 1960 and now is taking close to 18%. And we have a hugely noncompetitive medical cost in American business relating to any country in the world. The countries that -- there were some countries that were around our 5% when we were at 5%. But we managed to get to 18% without them going beyond 11% or so. Literally, in 1960, we were spending $170 per capita on medical costs in the United States. And now we're spending over $10,000. And every $1 only has 100 cents. So there is a cost problem. It is a tapeworm in terms of American business and its competitiveness. We don't -- we have fewer doctors per capita. We have fewer hospital beds per capita, fewer nurses per capita than some of the other countries that are well below us. And you've got a system that is delivering $3.3 trillion. That's almost as much as the federal government raises. It's delivering $3.3 trillion or some number like that to millions and millions and millions of people who are involved in the system. And every dollar has a constituency. It's just like politics. And whether we can find the chief executive, which we're working in now and which I would expect we would announce before too long, but that's a key part of it. And whether that person will have the imagination and support of people that will enable us to make any kinds of significant improvements in the system, which everybody agrees is sort of out of control on costs. But they all think it's the other guy's fault, generally. We'll find out. It won't be easy. But it is not a -- the motivations are not primarily profit-making. They're we want to deliver -- we want our employees to get better medical service at lower costs. We're not going to -- we're certainly not going to come up with something where we think the service that they receive is inferior to what they're getting now. But we do think that there may be ways to make a real -- some significant changes that could have an effect, and we know that the resistance will be unbelievable. And if we fail, we've at least tried. And -- but they -- the idea is not that I will be able to contribute anything in some breakthrough moment by reading a few medical journals or changing something that is embedded in the medical system. But the idea is maybe the 3 organizations, which employ over 1 million people and which after we announced it, we had a flood of calls from people who want to join in, but [ they weren't able ] to join until now. But they will if we have come up with any ideas that are useful. Whether we can bring the resources, bring the person and that CEO is terribly important, and then bring the person, support that person and somehow figure out a better way for people to continue to receive better medical care in the United States without that 8% -- 18% going to 20% or 22% at the lifetime of our children or something of that sort because there are only 100 cents in $1, and we will see what happens. It's -- if you were Ajit actuarially figuring, it would not -- you would not bet on us. But I think there is some chance we will do something. There is a chance nobody can quantify that we could do something significant, and we are positioned better than most people to try. And we certainly got the right partners, so we will give it a shot and see what happens. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

There is some precedent for success in this public service activity. If you go back many decades, John D. Rockefeller is the first, using his own money, made an enormous improvement in American medical care, perfectly enormous. In fact, there's never been any similar improvement done by any one man since. So Warren having imitated Rockefeller in one way is just trying another, and maybe it'll work.

**Warren E. Buffett**
*Chairman, President & CEO*

Rockefeller certainly lived a very long time. So I accept trying to imitate him in 3 ways. We'll see what happens. But we are -- we're making a lot of progress, and I think we'll probably have a CEO within a couple of months. But if we don't have one, we're not going to pick somebody just because we want to meet any deadline or anything like that. We've got these wonderful partners. We don't have a partnership agreement among us. Somebody started drawing up one in the legal department, and the CEO just put a stop to it. And they -- we do have places that have a lot of resources, and while we all have our share of bureaucracy, we could cut through it, if we've got something that we really think makes sense. And we will get the support. We get a lot of resistance, too. But we will get the support of a lot of American business if we come up with something that makes sense. But if it was easy, it would have already been done. There's no question about that.

**Charles Thomas Munger**
*Vice Chairman*

It's not easy.

**Warren E. Buffett**
*Chairman, President & CEO*

No. But it should be tried.

Okay. Becky?

**Becky Quick**

This question comes from David Rolfe who is with Wedgwood Partners and has been -- the company has been shareholders in Berkshire since 1989. The stock is currently the largest holding in their stocks, 18 stocks. He asks this question: over the past 2 years, you have listed the individual fund-to-funds performance from protégé partners. When will you start showing the annual performance on $25 billion that Ted and Todd manage? Can you state if either Ted or Todd has beaten the S&P 500 Index over the last 5 years?

**Warren E. Buffett**
*Chairman, President & CEO*

Both. A, we'll probably never report their individual performance. But you can be sure that I have an enormous interest in, as does Charlie, in how much we think they contribute to Berkshire, and they have -- they've been terrific. They not only have the intellect and the record, but they are exceptional human beings. And they -- Todd has done a tremendous amount of work, for example, on the medical project.

And Ted has -- I've given him several things, and he's done them better than I can do them. So the record since inception, and I'm measuring it, Ted came later than Todd, a year or so later, but the record since inception is almost identical, both of the 2 managers from their different sectors and matching the S&P. And they received some incentive compensation, which they only get if they beat the S&P. I think -- and as I said, it's just slightly ahead -- that really hasn't -- it's been better than I've done. So naturally, I can't criticize it. Hey, they were 2 very, very, very good choices. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

You did review -- did report in the previous year. You just didn't do it this year. And -- but now you have your report.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, I would -- the problem that all of us has is size. It's harder to run even $12 billion or $13 billion, frankly, than it is to run $1 billion. And if you're running $1 million or something that's short, it's a whole different game. You have to agree with that, wouldn't you, Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Of course.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, okay. Just like any good lawyer, you never ask him a question unless you think you know the answer you're going to get.

Okay, [ Gary ]?

**Unknown Attendee**

My question is on GEICO. Last year, you promised growth and delivered. But along the way, the combined ratio was moving up, and it was the first time it was over 100 in about 15 years. Granted some of that was catastrophes. But even excluding catastrophes, there was something going on in the loss trends that caused you to slow down that growth, at least it -- as we got to the latter part of the year. And I wonder if you could tell us what was going on. And I did look this morning, too, so it looked like the first quarter has settled down a little bit, but still like to know about the fourth quarter.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, sure. It -- the only thing different with the question -- I'm sorry, when you say it causes a slowdown. We didn't want to slow down the growth. I mean, you're looking at a guy here that has never wanted to slow down the growth at GEICO. The growth did slow down, but it wasn't because we wanted it to. Our prices that led to the underwriting loss -- we'd have been slightly in the black without the catastrophes. But if we hadn't paid our light bills, we might have been in the black, too. I mean, the successful stuff doesn't mean much in insurance as far as I'm concerned. The -- if you look at the first quarter, our margins were around 7%, which is actually a little more than we aimed for. And you see the unaudited, I mean, the preliminary figures for April, and they're similar. So the underwriting gain is -- or margins are perfectly satisfactory now. And we'd love to get all the growth we can, and we will gain market share this year. And we gained market share. Tony -- when Tony took over the place, it was in 1993, it was 200 -- 200 and a very small fraction percent. And it will be 13% of the house -- 13% of the households of the country now. We will keep gaining share. We will keep riding profitably most of the time. And every now and then, our rates will be in that, slightly in that modestly inaccurate and inadequate, I should say, and/or we'll have maybe some big losses on hurricanes or something of that sort, or we'll have a Sandy in New York. The -- but GEICO was a jewel. And it's really our -- we've got some others that we feel awfully close or similarly about, but it's an incredible company. It has a culture all of its own. It's saving its customers probably $4 billion or $5 billion a year against, let's say, what other -- against what they would otherwise be paying based on the average in auto insurance. And it will be profitable on underwriting a very high percentage of the year and contributed another $2 billion to float last year. It is a terrific company. And like I say, the first 4 months are dramatically better. Now there's some seasonal in auto insurance. So the first quarter is usually the best of the 4 quarters, but it's not a dramatic seasonal sign. I think when you read the 10-Q, and you can take my word for April, I think GEICO is on a good profit track as well as a good growth track. And the more growth, the better I like it. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I think you've said it perfectly. It was never very bad, and it's better now.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Station 5.

**Unknown Attendee**

Warren Buffett and Charlie Munger, my name is [ Ethan Rapoza ]. I'm from Omaha, Nebraska. My question is, how will Donald Trump's tariffs affect the manufacturing business of Berkshire Hathaway?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, to date, steel cost -- we've seen steel cost increase somewhat. But as I said earlier, I don't think the United States or China, there'll be some jockeying back and forth, and that'll be something that leaves some people unhappy. And -- but I don't think either country will dig themselves into something that precipitates and continues any kind of real trade war in this country. We've had that in the past a few times. I think we've learned a general lesson on it. But there will be some things about our trade policies that irritate others, and there'll be some from others that irritate us. And there'll be some back and forth. But in the end, I don't think we'll come out with a terrible answer on it. Charlie, I'll let you...

**Charles Thomas Munger**
*Vice Chairman*

Well, steel has -- it reached -- the conditions in steel were almost unbelievably adverse to the American steel industry. Even Donald Trump can be right on some of this stuff.

**Warren E. Buffett**
*Chairman, President & CEO*

The thing about trade, I've always said that the president, whoever's president, any President, needs to be an educator in chief, which Roosevelt was, in The Depression. That's why he had those fireside chats and it was very important that he communicated to the people what needed to be done and what was happening around them. And trade is particularly difficult because the benefits of trade are basically not visible. You don't know what you would be paying for the clothes you're ordering today, if we had a rule, they all had to be manufactured in the United States, so you'd be paying for your television set or whatever, maybe. No one thinks about the benefits day by day as they walk around buying things and carrying on their own business. The negatives, and there are negatives, are very apparent and very painful. If you're laid off like happened in our shoe business in Maine, and you know you are a -- been a very, very, very good worker, and you are proud of what you did, and maybe your parents did it before you, and all of a sudden, you find out that American shoes, shoes manufactured in America, are not competitive with shoes made outside the United States. You can talk all you want about Adam Smith or David Ricardo or something and explain the benefits of free trade and comparative advantage and all that sort of thing. And that doesn't make any difference. And if you're 55 or 60 years old, to talk about retraining or something like that, so what. And so I -- it is tough in politics, where you have a hidden benefit and a very visible cost to a certain percentage of your constituency. And you need to do 2 things under those circumstances if you have the situation. You know what's good for the country. So you have to be very good at explaining how it does really hurt in a real way somebody that works in the textile mill, like we had in New Bedford, where you only spoke Portuguese, half of our workers only spoke Portuguese. And suddenly, they have no job and they've been doing their job well for years. You've got to be able to do things. You have to understand that that's the price individuals pay for what's good for the collective good. And secondly, you got to take care of the people that are -- where retraining is a joke because of their age or whatever it may be, and you've got to take care of the people that become the roadkill in something that is collectively good for us as a country. And that takes society acting through its representatives to develop the policies that will get us the right collective result and not kill too many people economically in the process, and we've done that in various arenas over the years. The people in their productive years do help take care of the people that are too old, and too young. And every time a baby is born in the United States, we take on an obligation of educating them for 12 years at a cost of $150,000. We have a system that has a bond between the people in their productive years and the ones in the young and old. And it gets better over time, far from perfect now, but it has gotten better over time. And I believe that trade, properly explained, and with policies that take good care of the people, old and young, is good for our country, and can be explained. But I think it's a tough -- it's been a tough sell to a guy that made shoes in Dexter, Maine, or worked on a loom in New Bedford, Mass or works in the steel mill in Youngstown, Ohio. Andrew?

**Andrew Ross Sorkin**

Okay, Warren. This question comes from a Berkshire shareholder who says they've been a shareholder for 10 years. I should say this may be one of the most pointed

questions I've ever received for you.

**Warren E. Buffett**
*Chairman, President & CEO*

But you have to give it, though.

**Andrew Ross Sorkin**

But I do. The shareholder writes, I've watched the movie every year at this meeting, when you testify in front of Congress on behalf of Salomon as the symbol of what it means to have a moral compass. Investors are increasingly looking to invest in companies that are socially and morally responsible. So I was disturbed when you were asked on CNBC about the role that business could play in sensible policies around the sales of guns. You said you didn't think business should have a role at all, and you wouldn't impose your values on others. I was even more surprised when you said you'd be okay with Berkshire owning shares in gun manufacturers. At this meeting years ago, you said you wouldn't buy a tobacco company because of the social issues. The idea that Berkshire would associate with any company, as long as it isn't illegal, seems at odds with everything I think you stand for. Please tell us you misspoke.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, let's explore that a little. Should it be just my view or should it be the view of the owners of the company? So if I decide to poll the owners of the company on a variety of political issues, and one of them being whether Berkshire has a relationship to support the NRA. I know if a majority of the shareholders voted to do it or a majority of the Board of Directors voted to do it, I would accept that. I don't think that the -- my political views, I don't think I put them in a blind trust at all when I take the job. And I -- in the election of 2016, I raised a lot of money. In my case, I raised it for Hilary and I spoke out in various ways that were quite frank. But I don't think that I speak -- when I do that, I don't think I'm speaking for Berkshire. I'm speaking as a private citizen, and I don't think I have any business speaking for Berkshire. We have never -- at the parent company level, we have never made a political contribution, and I don't go to our suppliers. I don't do anything of that sort, where I raise money, either for the school I went to or for a political candidate I want or anything else. And I don't think that we should have a question on the GEICO policyholder form, are you an NRA member? And if you are, you just aren't good enough for us or something like that. I think -- I do not believe in imposing my political opinions on the activities of our businesses. And if you get to what companies are pure and which ones aren't pure, I think it's very difficult to make that call. I think with that response, I'm almost afraid to call on Charlie. But go ahead, Charlie.

**Charles Thomas Munger**
*Vice Chairman*

Well, obviously, you do draw a limit, Warren, in all kinds of things, which are beneath us, even though they're legal. But we don't necessarily draw it perfectly because we've got some sort of supreme knowledge. We just do the best we can. And certainly, we're not going to ban all guns surrounded by wild turkeys in Omaha.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Great.

**Andrew Ross Sorkin**

Warren, this question is also based on something you said more recently, so I can't guarantee it's going to be any easier. You recently noted that you prefer share repurchases over dividends as a means for returning capital to shareholders, should Berkshire's cash balances continue to rise and hit the $150 billion threshold you noted as being difficult to defend to shareholders at last year's annual meeting. While I understand the rationale for not establishing a regular dividend, a one-time special dividend could be a useful option for returning a larger chunk of Berkshire's excess capital to shareholders without the implied promise of -- to keep paying a regular dividend forever. The drawback of this special dividend, though, is that it would lead to an immediate decline in book value and book value per share, whereas a larger share repurchase effort, while depressing book value, would reduce Berkshire's count, limiting the impact on book value per share. If we do happen to get a few years out and Berkshire does hit that $150 billion threshold because valuations continue to be too high, both for acquisitions and for the repurchase of company stock, would you consider a one-time special dividend as a means for returning capital to shareholders?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, if we thought we couldn't use capital effectively, we would figure -- we would try to figure out the most effective way of returning capital to shareholders. And you could -- I would have probably have -- I think, it'd be unlikely we do it by special dividend. I think it'd be more likely we'd to it by a repurchase if the repurchase didn't result in us paying a price above intrinsic value per share. We're never going to do anything that we think is harmful to continuing shareholders, so we think the stock is intrinsically worth X and we would have to pay some multiple -- some modest multiple even above that, to repurchase shares. We wouldn't do it because we would be hurting continuing shareholders that -- to the benefit of people who are getting out. But we will try and do whatever makes the most sense, but not with the idea that we have to do something every day, because we simply can't find something that day. We had a vote, as you know, a few years back on whether people wanted the dividend. And the B shares, so I'm not talking my shares or Charlie's earnings, but the B shares voted 47 to 1 against it. So I think through self-selection of who becomes shareholders, I don't think shareholders world -- or country-wide on all stocks would go for [indiscernible] one and all. But we can solve selection in terms of who joins us, and I think they expect us to do whatever we think makes the sense for all shareholders. And obviously, if we really thought we never could use the money effectively in the business, we should get it out one way or another. And you've got a bunch of directors who own significant -- very significant amounts of stock themselves. And you can expect them to think like owners, that's the reason they're on the board and you expect the management to think like owners and owners will return money to all of the owners if they think it makes more sense than continuing to look for things to do. But we invested in the first quarter, maybe I have to look that up on the -- well it's certainly through April, probably close to $15 billion or something like that net, or something. And we won't always be in a world of very low interest rates or high private market prices. So we will do what makes the most sense. But I can't see us ever making a special -- it's very unlikely we would just pay out a big special dividend. I think that if we put that to the vote of the shareholders and Charlie and I did not vote, I think we would get a big negative vote. And I'd be willing to make a bet on that one. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, as long as the existing system continues to work as well as it has, why would we change it? We've got a whole lot of people that are accustomed to it, have done well with it. And if conditions change, we're capable of changing our minds, if the facts change.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. And we've done that several times.

**Charles Thomas Munger**
*Vice Chairman*

Yes. Although, I must say, it's a little hard.

**Warren E. Buffett**
*Chairman, President & CEO*

He always brings me back to earth. Okay. Station 6?

**Stephie Yu**

My name is Stephie Yu from Horizon Insights, a China-focused research firm based in Shanghai. So I have a lot of mutual fund clients in China who are very young, relatively younger, and they manage a smaller portion of funds. So my question is, if you only have $1 billion in your portfolio today, how would you change your investments? Would you consider more investment opportunities in emerging markets, such as China?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. I would say, if I were working with $1 billion, I would probably find, within a $30 trillion market in the United States, where I understood things better generally than I do around the world. I'd probably find opportunities there that would be better, incidentally, by some margin than what we can find for hundreds of billions. But I wouldn't -- there's no way I'd do a lot of emerging markets at this time, 15 years ago or so. Well just because -- it was kind of interesting, it took me back to my youth, I -- on a weekend, I went through a directory of Korean stocks and I bought -- and these were small stocks. Well, they were small by standards of either Korean or American business, they were big companies. But I found 15 or 20 that were statistically cheap, bought some of each one myself. And there are opportunities with smaller amounts of money to do things that we just can't do. And -- but I -- my first inclination all week would be to comb through things in the United States, and -- but I've gone through in other countries. I probably wouldn't get into very small markets, I guess. There can be a lot of difficulties even in market execution and taxation, a lot of it. You can find -- if you can't find it in America and China, Britain and a few other places, you're probably not going to find it someplace else. You may think you'll find it, but that may be -- that may be a different game than you know. Our problem is size, not geography. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I already have more stocks in China than you do as a percentage, so I'm with the young lady.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Well you can -- you want to name names? Do these stocks have names?

**Charles Thomas Munger**

*Vice Chairman*

No, I don't.

**Warren E. Buffett**
*Chairman, President & CEO*

Carol?

**Carol Loomis**

This question...

**Warren E. Buffett**
*Chairman, President & CEO*

I should just add one thing. You will find plenty of opportunities in China. Charlie will say you've got a better hunting ground than even a person with similar capital in the United States. Would you agree?

**Charles Thomas Munger**
*Vice Chairman*

Yes. I do.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Yes. And in a sense, it's logical that should be the case because it's a younger market, but still a large market. So that markets probably work toward efficiency as they age. Japan had this very strange situation with warrants being priced out of line and all of that 30 years ago, and it -- people notice after a while, it disappears. But there can be some very strange things happen in markets as they develop. I think you'd agree with that, Charlie, wouldn't you?

**Charles Thomas Munger**
*Vice Chairman*

Absolutely.

**Warren E. Buffett**
*Chairman, President & CEO*

Jonathan?

**Carol Loomis**

You skipped me.

**Warren E. Buffett**
*Chairman, President & CEO*

I skipped Carol? I'm sorry.

**Carol Loomis**

Okay. This question, and I would concede it is not a small one, comes from [ Gideon Pollock ] of Montreal. He says the world knows generally how the look of Berkshire Hathaway have changed since you began to run the company in 1965. Berkshire was in a tiny northeastern textile company, and now it is the #4 company on the Fortune 500. What about the next 50 years? Could you give us your view of what Berkshire looks like in 2068?

**Warren E. Buffett**
*Chairman, President & CEO*

I think it would look a long way away. No, the answer is I don't know, and I didn't know 50 years ago what it would look like now. I mean, it will be based on certain principles. But where that leads, we will find out, and we'll have people that are thinking about different things than I am, and while the world was different then, but we will be, I very much hope and believe, we will be, that we'll be as shareholder-oriented, as any large company in the world. We will look at our shareholders as partners, and we will be trying to do with their money exactly what we'd do with our own, not seeking to get an edge on them. And who knows what else will be happening then. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I want to talk to the younger shareholders in the group. Those of you who, after we're gone, sell your Berkshire stock and do something else, whether helped by your many friends, I think you're going to do worse. So I would advise you to keep the faith. By the way, some of that has already happened in many families.

**Warren E. Buffett**
*Chairman, President & CEO*

I'll give his answer next time, and I'll see if I get all the applause. Jonathan?

**Jonathan Brandt**

Duracell's $82 million of pretax profits in 2017 were still well below what it earned as a subsidiary of P&G. Can you clarify or quantify to what extent transition cost or purchase price accounting impacts at the segment level were still temporarily burdened last year? Or is it possible that the GAAP earnings contribution simply reflects the commoditization of the category, given the entry of Amazon into the battery market? I did see that Duracell's earnings were up in the first quarter. Is that a sign of a more meaningful contribution in 2018 and beyond, as you finish rightsizing the manufacturing footprint and acquisition-related charges fall away?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Duracell should be earning more money than it is now, and will be. And as you mentioned, it's well on its way there, but it is not earning an appropriate amount now based on the history of the company. I was around when -- I was on the board of Gillette when Gillette bought Duracell and I've seen what it does when it isn't managed to its full extent, and I saw what Jim Kilts did with Gillette when he ran it. And there were a lot more transition problems in the purchase. For one thing, there's a lot of rules connected with our swap of our stock in P&G for Duracell. There are a lot of things that you cannot do that made sense to do in that period of transition from PGA -- P&G's management to ours. But Duracell, the brand is strong, very strong. The product line is very strong. And we are making more money and we should, and I believe we will, earn really what the property is capable of earning. We should be earning that relatively soon. But you're absolutely right that, that it is, from a profit standpoint, is underperforming. We're making a lot of changes, and some of those are involved in jurisdictions, countries where it is really expensive to change in terms of employment payments that have to be made if a plant is changed or something of the sort. But I like the Duracell deal absolutely as well as when we made it. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

I like it better than you do.

**Warren E. Buffett**
*Chairman, President & CEO*

No. Duracell is a very, very -- is our kind of business.

**Charles Thomas Munger**
*Vice Chairman*

It is.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Station 7?

**Unknown Attendee**

I have a question related to the bond market, U.S. treasury bond market. My name is [ Ola Larson ]. I live in the San Francisco Bay Area. And I never worked in the financial industry. I started out buying penny mining stocks on the Vancouver Stock Exchange. And then, decades later, I got married and my wife convinced me to buy Berkshire shares. That was probably a good decision. So my question is, I read the newspapers about the Federal Reserve and the inflation numbers. And there must be an increased supply of treasury bonds that must go to auction. And my question is how would -- what do you expect that to impact yield or interest rate?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. The answer is I don't know. And the good news is nobody else knows, including members of the Federal Reserve Board. There are a lot of variables in the picture. And the one thing we know is we think that long-term bonds are a terrible investment. And we, at current rates or even close to current rates. So basically, all of our money that is waiting to be placed is in treasury bills that I think have an average maturity of 4 months or something like that at most. The rates on those have gone up lately, so that -- in 2018, my guess is we'll have at least $500 million more of pretax income than we would have had in the bills last year. But they still -- it's not because we want to hold them, we're waiting to do something else. But long-term bonds, they're basically -- at these rates, it's almost ridiculous when you think about it. Because you have the Federal Reserve Board is telling you, we want 2% of your inflation and the very long bond is not much more than 3%. And of course, if you're an individual and you pay tax on it, you're going to have some income taxes to pay. And let's say it brings your after-tax return down to 2.5%, so the Federal Reserve is telling you that they're going to do whatever is in their power to make sure that you don't get more than 0.5% a year of inflation-adjusted income. And that seems to me a very -- I wouldn't go back to penny stocks, but I think I would stick with productive businesses or productive -- certain other productive assets, by far. But what the bond market does in the next year, you've got trillions of dollars in the hands of people that are trying to guess which maturity would be the best to own and all that sort of thing. And we do not bring anything to that game that would allow us to think that we've got an edge. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, it really wasn't fair for our monetary authorities to reduce the savings rates paid mostly to old people with savings accounts as much as they did. But they probably had to do it to fight the Great Recession appropriately. But it clearly wasn't fair, and the conditions were weird. In my whole lifetime, it's only happened once with interest rates, went down so low and stayed low for a long time. It was quite unfair to a lot of people. And it benefited the people in this room enormously because it drove asset prices up, including the price of Berkshire Hathaway stock. So we're all a bunch of undeserving people and I hope that we continue to be so.

**Warren E. Buffett**
*Chairman, President & CEO*

At the time this newspaper came out in 1942, it was -- the government was appealing to the paper to everybody as kids. We went to school and we bought savings stamps to put in -- they first called them U.S. war bonds, then, they called them U.S. defense bonds, then, they call them U.S. savings bonds. But they were called war bonds then. And you put up $18.75, and you got back $25 in 10 years. And that's when I learned that, that $4 for 3 in 10 years was 2.9% compounded. They had to put it in small print then, and even an 11-year old could understand that 2.9% compounded for 10 years was not a good investment. Well we all bought them, and it was part of the war effort, basically. And the government knew, I mean, it knew that significant inflation was coming from what was taking place in finance in World War II. We actually were on a massive Keynesian-type behavior, not because we elected to follow Keynes but because war forced us to have this huge deficit in our finances, which took our debt up to 120% of GDP. And it was the great Keynesian experiment of all time that we backed into it and it sent us on a wave of prosperity like we've never seen. So you get some accidental benefits on that. But the United States government then asked every citizen to put their money into a fixed dollar investment at 2.9% compounded for 10 years. And I think treasury bonds have been unattractive ever since. With the exception of the early 80s, that was something at that time. I mean you really had a chance to buy -- you had a chance to invest your money by buying 0 coupon treasury bonds, and in effect, guarantee yourself that for 30 years, you would get a compounded return, something like 14% for 30 years of your lifetime. So every now and then, something really strange happens in markets. And the trick is to not only be prepared, but to take action when it happens. Charlie, did you ever buy any war bonds?

**Charles Thomas Munger**
*Vice Chairman*

No. No. I never bought war bonds.

**Warren E. Buffett**
*Chairman, President & CEO*

No? It used to be like...

**Charles Thomas Munger**
*Vice Chairman*

I didn't have any money when I was in the war.

**Warren E. Buffett**
*Chairman, President & CEO*

That's a good reason not to buy. Okay. Becky?

**Becky Quick**

This question comes from [ Angus Hanton ], who, he and his wife are based in London and he says they've been shareholders in Berkshire Hathaway for over 30 years. He says, we have all read about the zero-based budgeting that has been so effective with Kraft Heinz and other investments that you've done with 3G Partners. Can we expect these cost reduction techniques to be used by your managers in other parts of the Berkshire Hathaway enterprise?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, in general, we do not expect the manager, generally to get into a position where there would be a lot of change, in terms of zero-based budgeting and those -- why in the world aren't you thinking that way all of the time. The 3G people have gone into certain situations, where there were probably primarily in personnel, but in other expenses as well, a lot of expenses that were not delivering $1 of the value per dollar expended. And so they made changes very fast that -- to the situation that probably shouldn't have existed in the first place. Whereas we hope that our managers take a GEICO -- GEICO has gone from, I think, 8,000 to 39,000 people since we bought control, but they're all very productive. I mean, you would not find a way for a 3G operation to take thousands of people out of there. On the other hand, I can think of small organizations where you could take out a whole lot of people out, where it isn't being done because the businesses are very profitable to start with. That's what happened with the tobacco companies, actually. They were so profitable, that they got them all kinds of people around it that weren't really needed, but they -- the money just flowed in. So I -- our managers have different techniques of keeping track of -- or of trying to maximize customer satisfaction, at the same time that they don't incur other than necessary cost. And I think, probably, some of our managers may well use something that's either zero-based budgeting or something akin to it. They do not submit budgets, never had, to me. I mean, they're not even required to. We've never had a budget at Berkshire. We don't consolidate our figures monthly. I mean, I get individual reports on every company, but there's no reason to have some extra time spent, for example, by having to consolidate figures at the end of April or to consolidate figures at the end of May. We know where we stand. And I'm sure we're the only company that, probably in the whole Fortune 500, that doesn't do it. But we don't do unnecessary things around Berkshire, and a lot of stuff that's done at big companies is unnecessary. That's why a 3G finds opportunities from time to time. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, if you've got 30 people at headquarters, and half of those are internal auditors, that is not the normal way of running a big company in America. And what's interesting about it is, obviously, we lose some advantages from big size, but we also lose certain disadvantages from having a big bureaucracy with endless meeting after meeting after meeting around the headquarters. And net, I think we're way ahead with our low overhead diversified method. And also makes our company attractive to very able honorable people who have companies. So generally speaking, the existing system has worked wonderfully for us. I don't think we have the employment that could be cut effectively, that a lot of other places have. And I think our methods have worked so well. We'd be very unlikely to change them.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. I think at headquarters, you can say we have a kind of sub zero-based budgeting. And we hope that the example at headquarters is, to a great extent, emulated by our...

**Charles Thomas Munger**
*Vice Chairman*

It isn't just the cost reduction. I think the decisions get made better if you eliminate the bureaucracy. I think a bureaucracy is sort of like a cancer, and it functions sort of like a cancer. And so we're very anti-bureaucracy. I think it's done us a lot of good. In that case, we're quite different from, say, Anheuser-Busch at its peak.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. [ Gary ]?

**Unknown Attendee**

My question in on small commercial and specifically, direct small commercial. You seem to have some websites that enable buyers to purchase small commercial insurance directly, biBERK is one of them. It's a very competitive fragmented market. But what is your strategy for that market? And then can you ultimately GEICO-ize the small commercial market?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, we'll find out. I mean, it's a very good question because that's exactly the question we ask ourselves. And we have this incredible company at GEICO, which has gone direct in the personal auto field and first started in 1936. And there's no question in my mind that over a lot of years, and maybe not so many years, something like small commercial. Anything that takes cost out of the system makes it easier for the customer. It's going to work over time, if you got a system that was based on something that had more layers of agency costs and that sort of thing. So we are experimenting, and we'll continue to experiment, on something like small commercial workers comp. Whatever it may be, we'll try and figure out ways to take cost out of the system, offer the customer an equivalent product or better at lesser price, and we'll find out what can be done and what can't be done. And we're not the only ones doing it, as you know. Look, we are not going to -- we've got some managers that are going to be quite, I'm sure, enterprising on that, and we'd back them. And we expect some to fail and some -- and if a few succeed, we'll have some very good businesses. And the world is going in that direction, so you can expect us to try and go with it. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, if it were easy, I think it would have happened more faster...

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. It will happen as we go along. I mean, it wasn't easy in auto. I mean, when you think about it...

**Charles Thomas Munger**
*Vice Chairman*

No, it wasn't.

**Warren E. Buffett**
*Chairman, President & CEO*

No, I mean, it was a system with all kinds of extra cost to go back to the turn of the 19th century, end of the 20th. I mean, it was built on fire insurance and strong general agencies. And that slopped over into auto when the auto came along in 1903 from Ford or whatever. And so it grew within a system that really wasn't very efficient compared to what was available, but it took State Farm initially to go to a direct or a captive agency system, and then it took USAA and then later, GEICO, and then later, Progressive, to go to direct systems that are even more efficient and consumer-friendly. And the same thing is going to happen to some degree in all kinds of industries and certainly, small commercial...

**Charles Thomas Munger**
*Vice Chairman*

It could happen, but it will be slow.

**Warren E. Buffett**
*Chairman, President & CEO*

It takes an amazingly long time. I mean, it -- but the battle doesn't always go to the strong and the race to the swift, but that's the way to bet, as they say. So okay, station 8.

**Unknown Attendee**

[ Austin Meriam ] from Jacksonville, Florida. Mr. Buffett, with the recent news of the partnership between you, Mr. Bezos and Mr. Dimon to challenge the health care industry and the self-admitted difficulties you are running across, this would lead me to believe the industry has higher barriers to entry than may have originally been hypothesized, a larger moat, if you will. Would that justify a higher earnings multiple for established players in the industry such as PBMs, for example?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, just though the system may have a moat against intruders, it doesn't mean that everybody operating within the system has individual moats, for one thing. Now I -- we are -- if this new triumvirate succeeds at all, we are attacking an industry moat. And I'm defining industry very broadly, health care, not just health care insurers and this or that, but trying to figure out a better way of doing it and making sure that we're not sacrificing care, and the goal is to improve care. And all I can say, that is a -- that's a lot bigger than a single company's moat, it's bigger than a component of the industry's moat. The moat held by the whole system, since it interacts in so many ways, is actually -- that's the moat that essentially has to be attacked, and that's a huge moat. And like I say, we'll do our best, but I hope if we fail, I hope somebody else succeeds. Charlie?

**Charles Thomas Munger**

*Vice Chairman*

Well, I suspect that, eventually, when the Democrats control both houses of Congress and the White House, we will get single-payer medicine. And I don't think it's going to be very friendly to many of the current PBMs, and I won't miss them.

**Warren E. Buffett**
*Chairman, President & CEO*

Andrew?

**Andrew Ross Sorkin**

This question comes from [ Keeley ] and actually is directly about the issue of moats. He notes that Elon Musk, this week, on his Tesla earnings call, said the following, "I think moats are lame. They are like nice in a sort of quaint vestigial way. And if your only defense against invading armies is a moat, you will not last long. What matters is the pace of innovation. That is the fundamental determinant of competitiveness." So Warren, it seems the world has changed. Business is getting more competitive, pace of innovation, technology is impacting everything. Is Elon, right?

**Charles Thomas Munger**
*Vice Chairman*

Let me do that, Warren. Elon says a conventional moat is quaint, and that's true over a puddle of water. And he says that the best moat would be to have a big competitive position, and that is also right. It's ridiculous. Warren does not intend to build an actual moat, even though they're quaint.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Certainly, a great number of businesses, this has always been true, but it does seem like it, the pace has accelerated and so on in recent years. There's been more moats that have been -- become susceptible to invasion. That seemed to be the case earlier, but there's always been the attempt to do it. And there -- here and there, there are probably places where the moat is as strong as it's ever been. Certainly, you can work at -- certainly should be working on improving your own moat and defending your own moat all of the time. And then Elon may turn things upside down in some areas. I don't think he'd want to take us on in candy, and we've got some other businesses that win is how I see it. But you can look at something like Garanimals out there in the other room, and it won't be technology that takes away the business and Garanimals it, maybe something else that catches the young kids' fantasy or something. But there are some pretty good moats around. Being a low-cost producer, for example, is a terribly important moat. And at something like GEICO, technology has really not brought down the cost that much, and I think our position has -- there's a couple of companies that have cost as low as ours. But among big companies, we are a low-cost producer, and that is not bad when you're selling an essential item. Okay, [ Greg ]?

**Unknown Attendee**

Warren, Berkshire Energy has benefited greatly from operating under the Berkshire umbrella. By not having to pay out 60% to 70% of earnings annually as a dividend, the company was able to amass $9 billion in capital in the past 5 years and closer to $12 billion in the past 10, money that could be allocated to acquisitions and capital spending, especially on renewables. While tax credits for solar energy don't run out until next year, we've already seen a dramatic reduction in Berkshire Energy's capital commitment to solar projects. And even though spending on wind generation capacity is projected to be elevated this year and next, it does wind down in 2020 as the wind production tax credits are phased out. Absent a major commitment to additional capital projects, it looks like Berkshire Energy's expenditures in 2021 will be as low as since 2012, leaving the firm with more cash on hand than it has had in some time. Do you think it is likely at that point that Berkshire Energy starts funneling some of that cash up to the parent company? Or will it be earmarked for debt reduction or just be left on the balance sheet as dry powder for acquisitions?

**Warren E. Buffett**

*Chairman, President & CEO*

Yes. The -- you're right about when tax credits phase out and all of that. Although, as you know, they've extended that legislation in the past, and who knows exactly what the government's position will be on incentivizing various forms of alternative energy. But my guess is, I mean, if you take the logical expenditures that may be required in all aspects of the public -- of electric generation and the utility business, generally, I think there will be a lot of money spent. And the question is whether we can spend it and get a reasonable return on it. And well, there, again, we'll do what's logical. There are 3 shareholders basically at Berkshire Hathaway Energy. Berkshire Hathaway itself owns 90% of it. And Greg Abel, and his family perhaps, and Walter Scott, and again, family members, own the other 10%. And we all have an interest in employing as much capital as we can at good rates. And we'll know when it can be done and when it can't be done, and we'll do -- there's no tax consequences to Berkshire at all. So -- but the 3 partners will figure out which makes the most sense. But when you think of what might be done to improve the grid in the U.S. and the fact that we do have the capital, I wouldn't be surprised if we find good uses for capital in Berkshire Hathaway Energy and for a long time in the future. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Yes. Well, I think there will be huge opportunities in Berkshire Energy as far ahead as you can see to deploy capital very intelligently. So I think the chances of a big dividend is approximately 0.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. And we've not only got the money, to an extent that virtually no utility company does, we've also got the talent too. I mean, we've got a very, very talented organization there. So it's a very -- it's a big field, and we've got shareholders that are capitalists and we've got managers that are terrific. And you would think we'd find something intelligent to do, over time, in the field. So far, we have. I mean, we've owned it now for close to 20 years, and we've deployed a lot of capital and so far, so good. I mean, it's -- if you look at the improvements that can be made in our utility system in the United States, you're talking hundreds and hundreds and hundreds of billions of dollars, if not trillion. So -- but I don't know where else would Berkshire be if you look for that kind of money. Okay, station 9?

**Unknown Attendee**

I'm [ Richard Cercer ] from Tucson, Arizona. At Berkshire, what counts most are increases in our normalized per share earning power, and that was in our -- your last letter. What is our normalized per share earning power as you estimate it?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, I would say that what you saw in the first quarter, under these tax rates, would probably be a reasonable guess. Obviously, it depends on the economy in any given year. I would say that would -- is a reasonable estimate, but we have firepower we haven't used and we'll have more firepower as we go along. So we do expect that normalized earning power to increase over time. And if it doesn't, one way or another, we're failing you because we're retaining those earnings. So I don't see anything abnormal in our earnings, figured now at a 21% federal rate. But as I look at the $5.25 billion in the first quarter, seasonally, insurance is better in the first quarter. But seasonally, most of our businesses in the first quarter is not the strongest quarter for us. I don't see anything abnormal in it. And then I think you can expect, you should expect, we expect, substantial capital gains over time, in addition to what comes from the operating businesses. So how much you figure in for that, I would say that the retained earnings beyond dividends of our $770 billion of equities, and I don't know just how much they're keeping from us, but then our share of the earnings, which can be used by them, whether it's Apple or American Express or Coca-Cola or Wells Fargo or whatever, our share is in many billions of dollars annually. And one way or another, we think that those dollars will benefit us as much as if they had been paid out. Now in certain cases, they won't, but in certain cases, they will excel the amount in terms of market value created. So there's many billions of dollars we are not showing in our earnings that is being retained by the --

our investees. And one way or another, I think we'll get value received out of those. So you can take $20 billion or $21 billion under present tax rates, present economic conditions. And then we should get something from that, and we should get more when we get $100 billion of the cash invested and we should get more as we generate earnings. So we hope that adds up to a bigger number as we go along. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I don't think our shareholders are going to see another increase in net worth of $65 billion in a single year. They may have to wait a while for another. But I don't think that -- I think, eventually, there will -- another will come and then another. Just be patient.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, we don't regard the present situation as disadvantageous, except we'd like to get more money out of them. We like the businesses we have. We like the businesses that we own part of. We are not reflecting in the way we look at earnings. The dividends we get from those partially owned companies falls far short of what they're going to contribute, in our view, to Berkshire's overall earnings over time. We wouldn't own those stocks, otherwise, in there. So...

**Charles Thomas Munger**
*Vice Chairman*

And you also like the Apple and airline stocks you've recently purchased better than the cash you parted with.

**Warren E. Buffett**
*Chairman, President & CEO*

Absolutely.

**Charles Thomas Munger**
*Vice Chairman*

And it's quite a lot.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Yes, yes. Okay, we won't pursue that further. Carol?

**Carol Loomis**

This question is from [ Daniel Kane ] of Atlanta. Your annual letter this year pointed out that Berkshire has become a leader in real estate brokerage in the United States. Congratulations. That is a significant feat in less than 20 years. But let me mention a sticky point. If fees charged by stock market active managers are a drag on investor performance, I would argue that real estate commissions are no different and perhaps more detrimental, especially when one considers the lifetime effects of large, forgone upfront cash flows and the power of compounding interest. I would be pleased to hear your rejoinder on the points I've raised.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, the purchase of a home is the largest financial transaction for a significant percentage of the population that they make. And people -- a lot of people need a lot of attention, and you can show a lot of houses before you sell one. I was -- it is -- if you look at our close to 50,000 agents now, I think they make a good living or a decent living. But I would say that people who manage money make a whole lot more money with perhaps less contribution to the welfare of the person that they're dealing with.

So I don't think that there are unusual profits involved in being a real estate agent. I don't think there are unusual profits involved in the ownership. We like it because it's fundamentally a good business. But here we are, doing 3% of all the real estate transactions in the United States, and we're making maybe $200 million a year, which we won't get into what the comparative efforts are in Wall Street doing $200 million. But I think I have to tell them about Roy Tolles a little bit on this. Roy Tolles, for example, Charlie's partner, many, many, many years ago, decided he was going to want to buy a house in San Marino. He's going to have a number of kids. So he sent his wonderful wife, Martha, out. And for 6 months, he had her look at houses in San Marino. And this was many years ago, and if they were priced at $150,000, she would offer $75,000. And of course, the real estate agents were going crazy, that they were going to get something listed $150,000 sold at $75,000. And then, finally, when she found one that they both really liked, he had her offer something like $120,000. And the real estate agent was so happy to get a bid that was in the general area of the offering price, that he worked very hard on the seller to take that bid because he knew he did not want 6 more months of Roy bidding at the lower prices.

So you don't sell them on the first trip. Incidentally, I had Roy buy a house for me sight unseen because this was a guy that knew human nature. You don't get rich. Real estate agents see it -- that people earn their money and they earn it in a perfectly respectable and honorable manner in terms of what they get paid. And as in every single industry there is, there can be excesses or mistakes or that sort of thing. But we will continue to buy more REIT brokers. In fact, we'll probably have another couple to announce before long. And we will feel that if we get to where we're doing 10% of the real estate brokerage business in the country and we're making $600 million or $700 million a year, pretax, we will not think that's a crazy amount of money to make for enabling 10% of 5 million people to change their homes every year in the United States. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, the commissions in real estate may get unreasonable if you're talking about $20 million houses. It seems a little ridiculous to pay a 5% commission on a $20 million transaction. But do any of us really care if the kind of people who pay $20 million for a house have a slightly higher commission? The ordinary commission is -- is pretty well earned.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. We have a number of brokerage firms. So the highest has that -- their average transaction in one section of the country, would be close to $600,000 a unit. But the -- in terms of the sales price of the house. But the -- in most of our real estate operations, the average price is more like $250,000 or something in that area. And you can show a lot of houses to make one $250,000 sale. And of course, you split -- the listing company and the selling company are usually 2 different companies. So it does not strike me as excessive. And incidentally, it doesn't strike the people in the industry that way. It's not -- not been particularly susceptible to online-type substitution or something of the sort. The real estate agent earns their commission in most cases. But Charlie has had more experience with $20 million houses, so he will comment on that area. Okay, we'll have one more question before we break. Jonathan?

**Jonathan Brandt**

Given the changes in consumer tastes in the food business and Kraft Heinz' already high-margin structure, do you think the brands they own today, plus new product introductions, can together maintain or increase the current level of profits over the next 10 years without the benefit of acquisitions? Is there anything in their portfolio besides ketchup that is enjoying growing demand?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, the fact you're asking me whether Kraft Heinz is a good buy, we don't want to give information on marginable securities like in that manner. But yes, there are a number of items besides ketchup that enjoy growing demand, and some vary quite a bit by geography. There's enormous differences in the penetration of various products in the portfolio. Consumer packaged goods are still a terrific business in terms of return on invested assets, but the population worldwide grows fairly small and at a fairly minor rate. And people are going to eat about the same amount, and there is some more willingness to experiment or go for organic products of the sort. It's a very good business, and there are new products coming out constantly. It's not one where you're going to get terrific organic growth, but it never has been. And I like the business, and we own 26% or so of it. But there are a number of items within Kraft Heinz that enjoy pretty fairly healthy growth. But -- and I think you'd find that at most food companies, and I think you'd find very good returns on invested -- on tangible net assets at those businesses.

And with that talk about food, we will now break for lunch, and we will come back in about an hour. And I look forward to rejoining you.

[Break]

**Warren E. Buffett**
*Chairman, President & CEO*

Last year, for several years, I had a wonderful woman who carried this meeting off without a hitch, Carrie Sova. And she just had her third child here about 2 weeks ago and decided that -- she decided right after the last meeting that, that was going to be her full-time occupation. And this year, again, we've had everything carried off without me having to do anything, without a hitch, and I would just like to have [ Melissa Shapiro ] stand up and we'll get a spotlight on her. I can't believe how she does it. It's just been -- it's remarkable. I mean, we -- I just tell her the date and from -- that's all the help I have -- and It goes on from there. So Melissa, thank you. Okay. I think we next go to Station 10, and we will continue until 3:30 and we'll take a 15-minute break. And at 3:45, we'll convene the actual annual meeting. Station 10?

**Unknown Attendee**

I'm [ Theresa Leggasinski ]. I'm from Omaha, Nebraska, and I have a question about Microsoft. You have gotten into the tech world with buying Apple. You have Mr. Gates there, I'm just wondering, why you've never bought Microsoft?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, in the earlier years, it's very clear the answer is stupidity. But since Bill has -- particularly since Bill has joined the board, but even earlier than that, because of our friendship, it would be -- it just would be a mistake for Berkshire to buy Microsoft because if something happened a week later, a month later in terms of them having better earnings than expected or making an acquisition, anything, both Bill and I would incorrectly, but would be a target of suggestions and accusations, perhaps even, that somehow he had told me something or vice versa. And I stay away from -- I try to stay away from a few things just totally because the inference would be drawn that we might have talked -- I might have talked to somebody about something. So I've told the fellows that -- Ted and Todd, for example, that there are just a few things that are off the list because there'd be a lot of people who wouldn't believe us if something good immediately happened after we bought it. And of course, we -- to buy a lot of stock, it can take 6 months to buy it or something of that sort, we just don't need it. But both that and my stupidity have cost us a lot of money. It's a very -- it's a good question, and I think the answer makes sense. But Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Bill, is part of the late conversion is better than never, and you greatly improved yourself.

**Warren E. Buffett**
*Chairman, President & CEO*

Becky?

**Becky Quick**

All right. This question comes from [ Dave Shane ], who says, "Warren, you are a big believer in the U.S. political system, the financial system and in every American. You've said that regardless of who is President, the economy and the U.S. consumer will continue to prosper over the long run. All that said, do you believe that people in this country are more divided today than 50 years ago? Or is it just social media and media in general that blows this divide out of proportion? And if you do believe the divide has grown, what words of wisdom do you have to possibly help remedy it?"

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. I would say this, multiple times in my life, people have felt the country was more divided than ever, and I've gone through periods where people I knew and admired thought that because the other party was in power, that there never would be another election. That the Constitution would -- I've heard everything. Now interesting thing is this paper from 1942, since then, there have been 14 American Presidents. Just since my young venture into the stock market at 11, I've lived under 14 of the 44 Presidents the United States has had. And they called Trump 45, but they can't count Grover Cleveland twice. So there's really only been 44 Presidents of the United States. And 14 of the 44 have been during this period when that $10,000 became $51 million. Seven have been Republicans. Seven have been Democrats. One has been assassinated. One has resigned under pressure. It works. And if you'd told me at the start, and I'll let -- you'd have a Cuban missile crisis and you'd have nuclear weapons and you have a panic in -- financial panic and you have many recessions and you'd have war in the streets in the late 60s from a divided country, you'd say, "Why the hell are you buying stocks?" And through it all America, in fits and starts, what America really -- really moves ahead. And we are always -- we survived the Civil War. I mean, I hate to think about having to do it that way. But this country, in only less than 3 of my lifetimes -- if you go back 3 of my lifetimes, you go back 263 years, I guess, and Thomas Jefferson is 12 years old, and that's just -- and there was nothing here. You've flown in from all over to Omaha today, and you flew over a country with more than 75 million owner-occupied homes and 260 million vehicles and great universities and medical systems and everything, and it's all a net gain in less than 3 of my lifetimes. And we've had these events since I showed up buying my first stock. This country really, really works, and it always will have lots of disagreements. And after every election, you'll have people feeling the world is coming to an end and how could this happen. And I remember my future father-in-law, in 1952, he wanted to have a talk with me before his daughter and I got married. So kind of reluctantly, I sat down with him and he said, Warren, he said there's just one thing I want to tell you. He said, "You're going to fail." He said, "The Democrats are going to get -- they're going to take over the country and you're going to fail, but don't feel responsible for it because it's not your fault." I mean, he want to absolve me from this feeling that, while his daughter was starving to death, it was my fault. And I kept buying stocks and doing a little bit better all the time. And if the Republicans win, it was okay, and it was because of them that I was doing well. And if they were out, forget it, it was all going to disappear. So, I mean, I've seen a lot of American public opinion over the years. I've seen a lot -- maybe a commentary in the headlines. And when you get all through with it, this country has 6x the per capita GDP growth, the GDP per capita that it had when I was born. One person's lifetime, 6 for 1 change. Everybody in this room, essentially, is living better in multiple ways than John D. Rockefeller Sr. was, who was the richest person in the world during my early years, and we're all living better than he could live. So this is a remarkable, remarkable country and we found something very special. And I would love to be a baby being born in the United States today. Charlie -- okay, Charlie you give the other side of this.

**Charles Thomas Munger**
*Vice Chairman*

Well, there's a tendency to think that our present politicians are much worse than any we had in the past, but we tend to forget how awful our politicians were in the past. I can remember a prominent senator arguing with an absolute earnestness that mediocre people ought to have more representation on the United States Supreme Court.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. He came from Nebraska and so...

**Charles Thomas Munger**
*Vice Chairman*

Yes, he did. He came from Nebraska. So we're not quite as bad as that yet.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. He succeeded my dad in the House of Representatives. Okay. [ Gary ]?

**Unknown Attendee**

Yes. So on reinsurance. I know we've talked in the past about reinsurance not really being as attractive an industry in, say, the next 10 years as the last 10. But I don't think we've talked specifically about General Re. And I look this morning at the 10-Q and I see that General Re has grown nicely. I know there's been some changes in the management. And I wondered if you could just give us a sense of what's going on at the company to bring about some of that growth and what looks like improvement.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Well, the reinsurance business, I don't think I'd say that it's tougher than it was 10 years ago. But if we go back to 40 or 50 years ago, it was not brutally competitive, I'll put it that way. And the General Re, Tad Montross, who did a fantastic job for us at General Re, retired. And we have under Ajit, and then Kara in addition, but under Ajit, the focus of the place has changed somewhat. And it probably is more growth-oriented than before, but I can assure you that anything associated with Ajit is, also, has underwriting discipline attached to it. But there has -- as you correctly noticed, there's been some pickup. And I think he actually will see the property-casualty reinsurance business grow a fair amount. And the life business reinsurance business, and this is really the only place we do much in life, but that has grown very substantially ever since we took it over, particularly internationally. And so that part I like. And we will have a somewhat -- I think, we'll have a somewhat larger operation at General Re. But we have various methods, as you know, of being in reinsurance. We do these huge bulk deals. That's why our net revenues are down this year, we did that $10 billion deal with AIG, which was the biggest deal in history last year, and we don't have a repeat of it this year. We will be in the reinsurance business 5 years from now, 10 years from now, 20 years from now and 50 years from now in my view. And we will have some unusual advantages that stem both from our capital position, our attitude toward the business, and the talents that we have. We have a way better-than-average insurance business generally. We have some real gems that nobody really knows much about and we have a very, very good reinsurance business that will be subject to more ups and downs than something like GEICO will be, which just moves ahead every year, but it will be an important part of Berkshire. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Yes. I would argue the part that any idiot who phones here can easily get into, has gotten way tougher. And why wouldn't it?

**Warren E. Buffett**
*Chairman, President & CEO*

Charlie, is my substitute for my father-in-law that was -- okay. Station 11?

**Unknown Attendee**

Warren, Charlie, thank you again for having us and having me. I just can't thank you guys enough and appreciate you guys enough for the body of work that you guys had delivered to us and the exemplar example that you guys have set with your principles. Thank you. Charlie, you've mentioned that if given the chance or the same chance with a smaller capital base, you would still look for mispriced stock opportunities.

**Charles Thomas Munger**
*Vice Chairman*

Of course.

**Unknown Attendee**

And that would to be determined through, obviously, what we called the intrinsic value of the company in question and aggregate of the discounted future cash flows. Would you work the arithmetic using a fictional data set to illustrate the mathematical principia to determine an intrinsic value? And I hope you include the comprehensive mental model of the key metrics considered, any qualitative assessments of the management and any assumptions of its industry to determine the durability of its earning power. And Warren, same to that effect, would you also demonstrate or illustrate an arithmetic problem set using with a significant capital base and provide the object lessons on how those have changed from a small to a large capital base.

**Charles Thomas Munger**
*Vice Chairman*

Well, I can't give you a formulaic approach because I don't use one. And I just mix all the factors, and if the gap between value and prices are not attractive, I'd go on to something else. And sometimes it's just quantitative. For instance, when Costco was selling at about 12 or 13x earnings, I thought that was a ridiculously low value just because the competitive strength of the business was so great, it was so likely to keep doing better and better. I can't reduce that to a formula for you. I liked the cheap real estate. I liked the competitive position. I liked the way the personnel system work. I liked everything about it. And I thought, even though it's 3x book or whatever it was then, that it's worth more. But that's not a formula that anybody -- if you want a formula, you should go back to graduate school. They'll give you lots of formulas that won't work.

**Warren E. Buffett**
*Chairman, President & CEO*

This is the longest we've ever gone in the Berkshire meeting without Charlie's saying that -- getting to the point where he prefers Costco to Berkshire. Okay. Andrew?

**Andrew Ross Sorkin**

We got a handful of questions relating to Apple. This is a bit of a mash-up of a couple of them. Warren, you have bought in and sold out of IBM. You have praised Jeff Bezos, but never bought Amazon, and you have a doubled down on Apple. Can you tell us what it is about Apple, and given your sometimes critical views on buybacks, do you think Apple would do better spending $100 billion on buybacks or buying other productive businesses the way you have generally preferred? $100 billion is a lot of money.

**Warren E. Buffett**
*Chairman, President & CEO*

I used to think so. Apple has an incredible consumer product, which you understand a lot better than I do. Whether they should buy in their share -- they shouldn't buy in their shares at all, unless they think that they're selling for less than their worth. And if they are selling for less than their worth and they have the money and they don't see an acquisition that's even more attractive, they should buy in their shares. And I think that that's very -- because I think it's extremely hard to find acquisitions that would be accretive to Apple that would be in the $50 billion or $100 billion or $200 billion range. They do a lot of small acquisitions, and I'm delighted to see them repurchasing shares. We own, let's say, we own 250 million or so shares. They have, I think, 4,923,000,000 or something like that. And mentally, you can say we own 5% of it. But I figure, with the passage of a little time, we may own 6% or 7% simply because they repurchase shares. And I find it they got an extraordinary product and ecosystem and there's lots to be done. I love the idea of having our 5%, or whatever it may be, grow to 6% or 7% without us laying out a dime. I mean, it's worked for us in many other situations. But you have to have some very, very, very special product and -- which has an enormously widespread ecosystem and the product is extremely sticky and all that sort of thing. And they're not going to find $50 billion or $100 billion acquisitions that they can make it remotely a sensible price, that really become additive to them. They may find it, who knows. But there's certainly, as I look around the horizon, I don't see anything that would make a lot of sense for them in terms of what they'd have to pay and what they would get. Whereas I do see a business that they know everything about and where they may or may not be able to buy at an attractive price when they repurchase their shares, that remains to be seen. That's one thing that I always enjoy people, people say well you're talking your book or something if you talk -- from our standpoint, we would love to see Apple go down in price. They're going to -- well, just put it this way, if Andrew and Charlie and I were partners in a business that was worth $3 million, so each of us had $1 million interest in it. If Andrew offered to sellout his 1/3 interest at $800,000 and we had the money around, we jump at the chance to buy him out. I mean, it's so simple. But people get a lot, and if you want $1.2 million for it, we wouldn't pay it to him. It's very simple math, but it gets lost in all of these discussions. And of course, like I say, Tim Cook can do simple math, and he can probably do very complicated math, too. So we very much approve of them repurchasing shares. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

I think, generally speaking in America, when companies go out hell bent to buy other companies, they do -- they're worth less after the transaction is made than they were before. So I don't think you have a general way to wealth for American corporations to go out and buy other corporations. Averaged out, it's a way down, not up. And I think that a great many places have nothing better to do than to buy in their own stock, and nothing as advantageous to do as they can -- as buying in their own stock. So I think we know pretty damn well what's going to happen to Apple. They'd be very lucky if there was something available at a low price that they could buy. I don't think the world is that easy. I think that the reason these companies are buying their stock is that they're smart enough to know that it's better for them than anything else.

**Warren E. Buffett**
*Chairman, President & CEO*

And that does not mean we approve of every buyback at all. I mean, we should...

**Charles Thomas Munger**
*Vice Chairman*

No, no, no. I think some people just buy it to keep the stock up. And that, of course, is insane and immoral. But apart from that, it's fine.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. [ Greg ]?

**Unknown Attendee**

Warren, if we look at the performance of your equity investment portfolio the last 3 to 5 years, some of the strongest performance has come from Visa and MasterCard, which put up returns that were 3 to 4x greater than American Express. Unfortunately, your holdings of the 2 names, which we assume were held by Todd or Ted, have accounted for less than 1% of stock holdings on a combined basis the past 5 years while American Express has tended to be a top 5 holding, accounting for 10% of the portfolio at an average closer to 8% of late. Given that all 3 firms benefit from powerful network effects, along with valuable brands, were there any particular reasons Berkshire did not ramp-up its stakes in Visa and MasterCard to more meaningful levels, especially during those years when American Express was struggling? After all, you've shown a willingness to own several stocks from the same industry, holding shares in several competing banks and buying stakes in all 4 domestic airlines in fairly equal amounts when you picked them up in late 2016?

**Warren E. Buffett**

*Chairman, President & CEO*

When Ted and Todd or either one of them, I won't get into which specifically, which one of them specifically wanted that -- they could both have bought Visa and MasterCard, they were significant portions of their portfolio. There was no embargo or anything on them owning those stock because we had a big investment in American Express. And I could have bought them as well, and looking back, I should have. And I think American Express has done a fabulous job, and now we own 17 and a large fraction percent of a company that, not that long ago, we may have owned 12%. We've done it without spending a dime and without -- it's a company that has really done a fantastic job in a very competitive field where lots of people would love to take their customers away from them, but they have more customers than ever and they're spending more money than ever -- the customers are. And before the International growth has accelerated, the small business penetration is terrific, it's really quite a business. And we love the fact we own it. Like I said, it didn't preclude me from -- in any way from buying Master, Charter or Visa. And if I had been as smart as Ted and Todd, I would have. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, we would have been a lot better in all of our stock thinking if we could do it in retrospect. But at the time, we had a big position in American Express. And there is one tiny cloud in the horizon of the payments processors, and that is the system of We Chat in China. And so it isn't as though there isn't a little cloud somewhere off in the -- and I don't have a faintest idea how important that cloud is, and I don't think Warren does either.

**Warren E. Buffett**
*Chairman, President & CEO*

No. Now payments are a huge deal worldwide. And then you've got all kinds of smart people working at various ways to change the payment arrangements.

**Charles Thomas Munger**
*Vice Chairman*

To destroy what we have now.

**Warren E. Buffett**
*Chairman, President & CEO*

Sure. Sure. And you got some very smart people that I am -- that are building a company. And American Express made a decision a few years ago not to bid as low as somebody else did to retain the Costco business. And I think Charlie and I disagree on this, but I think it was a smart decision. He doesn't think it was a smart decision, but one of us will be right. And one of us will remind you that they were right. But if you look at American Express, it is a remarkable company. I mean, I came after them with Sapphire last year. People want that business, and payments are changing. And you can see in different countries different ways things are going on. And there are a lot of people that will play the game of gaming the system and switch from one to another based on the rewards on this card or that, and all of that sort of thing. But there also is a -- I think there's a very substantial group for which American Express does something very special. And they keep capitalizing on that premier position with that group, and they're doing it successfully around the country. And you'll see in the first quarter -- you've seen in the first quarter, where in Britain and Mexico and Japan, you're seeing gains of 15% or better in local currencies. And the base is not -- it's not tiny, but it's not huge. So there's a lot of room left to go in that, and the small business penetration is good. The loan portfolio's behaved sensationally compared to really just about anybody. So I like very much our holdings of American Express. The first half, because of the accounting changes, they had to suspend their repurchase program for 6 months. But they've announced that they expect to renew it and someday we'll even -- we'll own a greater percentage of American Express, and it will be a bigger company, in my opinion, and I think we'll do very well. But as Charlie says, nobody knows how payments is -- for sure, it comes out, and nobody knows how autos, for sure, come out. And that is true of the great many businesses we're in, and we faced it before. We used to buy things that were certain failures like textiles and second-rate department stores and trading stands in California. Now we just face -- things that face real difficulty, so we're actually moving up the ladder. Okay. Station 1?

**Unknown Shareholder**

Mr. Buffett, my name is [ Daphne Collier Star ], I am 8 years old and live in New York City. I've been a shareholder for 2 years, and this is my second Annual Shareholders Meeting. Berkshire Hathaway's best investments, on which that come from money, built its reputation, have been in very capital-efficient businesses, such as Coke, See's Candy, American Express and GEICO. But recently, Berkshire has made really big investments in a few businesses that require huge capital investments to maintain and that offer only a regulated, low rate of return, such as Burlington Northern railroad. My question to you, Mr. Buffett, is could you please explain why Berkshire's largest recent investments have been departed from your old capital-efficient philosophy? And why, specifically, have you invested Burlington Northern instead of buying a capital-efficient company like American Express?

**Warren E. Buffett**
*Chairman, President & CEO*

You're killing me, [ Daphne ].

**Charles Thomas Munger**
*Vice Chairman*

I'm certainly glad she's not 9 years old.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. I'm just sitting here thinking, which of the 6 panelists we're going to bump next year and put you in. Well, I thought I was doing well when I bought that Cities Service at 11. The answer is that we have -- we'd love -- we always prefer the businesses that earned terrific returns on capital like the See's Candy when we bought it or a good many of the businesses. And we've -- American Express earns a terrific return on equity, and has for a very long time. The fact that we buy them, Burlington -- BNSF, Burlington Northern, means, essentially, we can't get more money deployed in capital-light businesses at prices that make sense to us, and so we have gone into more capital-intensive businesses that are good businesses. But wouldn't it be wonderful if we could run the railroad without rail, without trains, and track, and tunnels, and bridges and a few other things. We get a decent return on the capital-intensive businesses. We bought most of them at very decent prices, and they've been run very well since we've bought them. We still love a business that takes very little capital and earns high returns and continues to grow and requires very little incremental capital. We can't deploy as much money as we have in doing that. And so is the second best choice still a good choice? The answer is yes. It's not as good as the best choice. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Yes. I like the aspiration of that young lady. She basically wants her royalty on the other fellow's sales. And of course, that's a very good model. And if everybody could to do that, well, nobody would do anything else. The reason we're satisfied with our utility returns and our railroad returns is they're quite satisfactory. And that -- quite satisfactory. I wish we had 2 more just like them. Don't you, Warren?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Yes, definitely.

**Charles Thomas Munger**
*Vice Chairman*

So the answer is, they're good enough. And you're asking us to get perfection. If you want us to have all our money in Coke and see 5% of what it's now selling for.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. And a business like Apple really doesn't take much capital. But the -- and so you got to spend a lot of money to buy businesses like that. Very few are for sale. And the answer is we have not foregone any opportunity to buy businesses that earn high returns -- very high returns on equity capital when we could buy them, at a sensible price, to buy these other businesses. So they haven't shoved anything else off the table. But you are -- you definitely have a job in our capital allocation department. Okay. Carol?

**Carol Loomis**

This is question is from [ Max Taylor ] of Chicago, and it concerns the newspapers that Berkshire owns. In your 2012 Letter to Shareholders, Mr. Buffett, you had a section devoted to Berkshire's buying 28 newspapers during the year just past. Since then, you have not come back to the newspaper subject. But this year, at the end of the annual report, you published a list of the newspapers Berkshire owns today along with their circulation. I compared that list with the one you published 5 years ago at the end of 2012. As you no doubt know better than anyone, the circulation of the 26th newspapers that Berkshire still owns, of the 28 you originally bought, fell sharply. In many cases, by big amounts, like 30% to almost 50%. I know that 5 years ago, you acknowledged the risk in owning newspapers, but you still said, "Charlie and I believe that paper is delivering comprehensive and reliable information to tightly bound communities, and having a sensible Internet strategy will remain viable for a long time." Skip to today, and imagine that you are writing about Berkshire's experience with newspapers, what would you be saying?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. I would say that -- I forget the modifying word on Internet strategy, but -- I guess, I said sensible. The problem has been about 1,300 daily newspapers in the United States, there were 1,700 not that long ago, is that no one except The Wall Street Journal, The New York Times and now probably the Washington Post has come up with a digital product that really, in any really significant way, will replace the revenue that is being lost as print newspapers lose both circulation and advertising. And if you look at the communities in which we operate or the communities in which, you name it, the other newspapers operate, the community could be prospering. We're in a prosperous economy presently. And all are losing daily circulation, they're losing Sunday circulation, they're losing street -- call it, street sales, they're losing home delivered. And it is -- I've been surprised that the rate of decline has not moderated in the last 5 years. We bought all the papers at reasonable prices. It is not a great economic consequence to Berkshire. But I would like to see daily newspapers actually be economically viable because of the importance to society. But I would say that the trend, which I put those circulation figures in there, because I think the shareholders are entitled to look year-to-year at what is happening. And it's not only -- it's happening to 1,300 newspapers throughout the United States and it happens in small towns where you would think that the alternative sources of information would not be that good. It happens. It happens every place. And the Journal, the Times and probably the Post have a viable economic model in the digital world, and probably will continue to shrink. I'm almost certain it will continue to shrink in the print world. But the digital world will be big enough that -- and they'll be successful enough so that they have, in my view, a sustainable business model. But it is very difficult to see with the lack of success in terms of important dollars arising from digital. It's difficult to see how the print product survives over time. And that's -- I'm afraid that's true of 1,300 newspapers in this country. And we'll keep looking to see if there is a way to do it, but you'd have to look at our experience and look at the experience of everyone else who's a -- McClatchy newspaper come out the other day. And I think that newspaper, which is a very good, fine cities that they operate in, and advertising revenue is down something like 17% or 18% in circulation. But it isn't -- that's not just them, it's everybody in the business. And I wish I had a better answer for you, but I don't. I would say that the economic significance to Berkshire is almost negligible. But the significance to the society, I think, actually is enormous. And I hope that we find something, I hope others find something, because we'll copy it. But so far, we have not succeeded in them. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, the decline was faster than we thought it was going to be. So it was not our finest bit of economic prediction. And I think it's even worse. I think, to the extent we miscalculated, we may have done it, because we both love newspapers and are -- have considered them so important in our country. These little local newspaper monopolies tended to be owned by people who behave well and tended to control the politicians. And we're going to miss these newspapers if they disappear. We're going to miss them terribly. And I hope it doesn't happen, but the figures are not good. Warren?

**Warren E. Buffett**
*Chairman, President & CEO*

No. No, they aren't. And it isn't just -- it isn't some town that has a particular problem with unemployment or anything of the sort and it isn't due to general economic conditions. It's due to the fact that, in this paper, if you wanted to know the baseball results from the present day and the box scores and everything else, they told you the following morning and it was still news to you. And the financial material that I read from there and in terms of looking at the stock prices and everything, they were news to you the following morning. And the -- what was developing in the Pacific in terms of the war was news to you when you read about it in the morning in The New York Times. And it's -- news is what you don't know that you want to know. And those help wanted ads, segregated as they may have been, still were the place to go to look to find a job. And you can call up and down the line, and one element after another, where the daily print newspaper was primary, they're no longer primary. And the business has changed in a very material way and we haven't been able to figure out any solutions to that, and we'll keep trying. Like I say, it's not of economic consequence but I think it is a societal consequence, and we haven't been able to solve it. Okay. Jonathan?

**Jonathan Brandt**

TTI has been nice growth story since Berkshire acquired it 11 years ago, more than doubling its pretax earnings to about $400 million due to fine organic growth and at least 2 successful bolt-on acquisitions. Business momentum appeared to accelerate in the first quarter. Can you please talk about the competitive landscape in the electronic components distribution industry and what TTI's advantages are? Is it just a great industry to be in or is TTI's business model and/or management team special? Do you expect it to be -- continue to be one of Berkshire's faster growing noninsurance subsidiaries?

**Warren E. Buffett**
*Chairman, President & CEO*

TTI is run by a fellow named Paul Andrews, who's done an absolutely sensational job with us. He's a wonderful man. He's a wonderful manager. And in the last -- he's quadrupled the business, basically. But in the last year and accelerating right to this point, they distribute little electronic components. They actually -- their average -- there are many billion-dollar business and their average item is less than $0.05 that they sell. So it's kind of like being in a jellybean business or something like that, except these things go into all kinds of fancy machine that I don't understand. And we have a worldwide operation based in the Dallas-Fort Worth area and -- built by one man who left a Division of General Dynamics about 45 or 50 years ago. And step-by-step, built up this business like -- we just bought, within the last 2 months, we bought an operation in South Korea that will be another substantial addition if we do business worldwide. And electronic components have absolutely taken off in the last year, and they use something called the bill -- well, it's essentially a measure of backlog. And book-to-bill was the ratio they call them, but it's just kind of a special term. But it's -- I mean, it's just improved dramatically in the last year, and it continues month-after-month. So something is going on out there because nobody buys these things to store them in their basement or anything of that sort. I mean, these get used, these electronic components. Some of our -- on allocation, we have a great relationship with suppliers, we have a very good relationship with our customers because we carry more inventory than most of our competitors. So -- particularly, when the business is tight, we can deliver and do a very first-class job doing it. So I give great credit to Paul. He increased his physical facility, started on that a few years ago, and it's a godsend that he did it because with the business going through there now, we wouldn't have been able to handle it. But it's a competitive business. I mean, if you look at General Electronics on the New York Stock Exchange, we've got competitors. I think Paul was doing a better job by a considerable margin than they are, and I'm delighted it's part of the Berkshire family. There will be times when that business slows down because their customers will have their own cycles. And what it does, it will go down. But over time, that business is going to grow. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Yes. It's a wonderful business because it's so difficult to do that competitors don't want to try it. When I lived in Omaha, there was a man who lived in great prosperity and almost no work, and his business was gathering up and rendering dead horses. And he never had any competitors. He used to come up the Omaha Club and start drinking about 11 in the morning. It was not a difficult business, but nobody ever crowded at him with no competition. And very few people want to distribute zillions of electronic parts that are worth $0.05 each. It's very complicated. And of course, that business is terribly good at it, and it keeps getting more and more of the same. So you're right, it's a huge growth business, which is sort of the electronic equivalent of gathering up and rendering dead horses.

**Warren E. Buffett**
*Chairman, President & CEO*

Imagine keeping track of close to a million different items with very small values attached to them and getting them out to your customer fast, because they want them fast all over the world, and those things are not easy to manage. I mean...

**Charles Thomas Munger**
*Vice Chairman*

And staying in stock on so many items. It's very complicated. And that business is very good at it.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. We're lucky.

**Charles Thomas Munger**
*Vice Chairman*

And of course, it will grow. The horses went away, but these parts aren't going to go away.

**Warren E. Buffett**
*Chairman, President & CEO*

Charlie made a profession of studying businesses where the owners could sit around and drink all day. That is where we ought to be competing or buying.

**Charles Thomas Munger**
*Vice Chairman*

My theory, Warren, is if it can't stand a little mismanagement, that's no business.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. And we're testing that sometimes. Okay. Station 2?

**Unknown Attendee**

[ Benj Herbert ], Topeka, Kansas. Just want to say, Warren and Charlie, thank you again for hosting us all. This is a great event.

**Warren E. Buffett**
*Chairman, President & CEO*

Thank you.

**Unknown Attendee**

My question is about the recent decision to sell shares back of Phillips 66. Not to put you on the hot seat, but right after that, share prices jumped up about $22 a share. You mentioned, at the time, that there are some regulatory requirements if you own over 10% of our company. Could you talk about the factors that go and did -- how you decide whether to retain more than that or get under that threshold? And then what are your thoughts long-term on Phillips 66 like their business midstream refining?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Well, it was the Cities Service Preferred of last year. They -- we sold the stock at around 93 or 94, and probably 115 now. But we own just under 10% of the company. And the more Ted and Todd and I think about various problems connect to regulatory problems and trading problems and so on, overwhelmingly, we will stick below 10% on marketable security holdings. We've done it with the airlines. Now that does not mean we're going to reduce our holdings in American Express or anything of that sort, but -- and Greg Garland has done a great job at Phillips 66. We've had very good relationship with the company. He's a very, very, very experienced and sensible manager. But I did this side that I wanted to be below 10% in that holding and we've, like I say, we will stay just slightly under 10% of Wells Fargo. We've actually sold a few shares just to stay below 10%. In the case, I think, of both American Airlines and United Continental, we -- unless there's something unusual, we're going to stay under 10%. Well, I believe, we have 9 and a significant fraction percent of Phillips, and I think they've been good at operations, I think they've been good at capital allocation. We traded them a business -- we traded them stock for a business some years ago, which has been a very nice business that we retained in operation. So we've got a lot of money still in Phillips, and I wish I'd made the deal at a higher price. But we made money on what we sold and we accomplished our objective. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, we like the subsidiary we traded the stock for.

**Warren E. Buffett**
*Chairman, President & CEO*

I missed that, but...

**Charles Thomas Munger**
*Vice Chairman*

We traded the stock for a subsidiary.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Well...

**Charles Thomas Munger**
*Vice Chairman*

We like the subsidiary.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. Well, it...

**Charles Thomas Munger**
*Vice Chairman*

We like the subsidiary. It's like the stock went away for nothing.

Yes, actually, we've done pretty well with Phillips. Becky?

**Becky Quick**

This question comes from [ Vlad Koptav ] in Ukraine. He says, capitalization of crypto currencies approached that of Berkshire and Apple last year and clearly, the idea behind crypto will affect conventional banking groups where Berkshire is a shareholder. You always say you didn't go into too much detail to obtain an understanding on crypto currencies. So what factors caused you to say that it's a bubble?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, generally nonproductive assets remain -- if you bought gold at the time of Christ and you figured the compound rate on it, it may be a couple tenths of 1%. It essentially is not going to deliver anything other than supposed scarcity because they'll only -- you can only mine so many, but so what? I mean, what does it produce itself? The check is a wonderful idea. Just imagine how the world would be without being able to write checks or have wire transfer funds, but it doesn't make the check intrinsically itself worth a lot of money. And if you said you can't use something called check with a little piece of paper, you'd do something else to transfer money. I think that any time you buy a nonproductive asset, you are counting on somebody else later on to buy a nonproductive asset because they think they can sell it to somebody for more money, and it's been tried with tulips and it's been tried with various things over time and it does come to a bad ending. I'm having -- you have a hard time, you can think of raw land. I mean, the Louisiana purchase was say, $15 million for 800,000 or so square miles of land. In fact, you're sitting on land that came with the Louisiana purchase. And so what we pay, we paid $20 a square mile and 640 acres in a square mile and you're down to $0.03 or something. So that was a pretty good purchase of what was then a nonproductive property, but it depends -- but it's very hard. You can buy stamps, Bill Gross got every -- collected a wonderful stamp collection and it sold for more money in the end, but it's dependent on somebody else wanting to buy, hoping they will sell it for more money and so on. And in the end, you make your money out of productive assets. If you buy a farm, you try to estimate what the crops -- what amount per acre of soybeans or corn or whatever may be raised, how much you have the pay that farmer that farms it for you and what your tax will be and various things. And you make a conclusion based on what the asset itself will produce over time, and that's an investment. When you buy something because you're hoping tomorrow morning you're going to wake up and the price will be higher, you need more people coming into it than are leaving. And you can get that and it will feed on itself for a while and sometimes for a long while and sometimes, to extraordinary numbers but in the end -- but they come to bad endings, and crypto currencies will come to bad endings. And along with the fact that there's nothing being produced in the way of value from the asset, that you also have the problem that it draws in a lot of charlatans and that sort of a thing where you're trying to create various sorts of exchanges or whatever may be it. It's something where people who are of less than stellar character see an opportunity to clip people who are trying to get rich because their neighbor's getting rich, buying the stuff and neither one of them understands. It will come to a bad ending. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I like crypto currencies a lot less than you do. And so to me, it's just dementia and I think the people who are rational traders, they go into trading crypto currencies, it's just disgusting. It's like somebody else is trading turds and you decide I can't be left out.

**Warren E. Buffett**
*Chairman, President & CEO*

To the extent that this -- well, we're being webcast around the world, I hope some of our stuff doesn't translate very well. Okay, [ Gary ]?

**Unknown Attendee**

Yes, I had a question on the corporate tax rate and we have a debate in my investment world about where the benefits of that cut fall. And I'd say the consensus is going to the consumer as it gets competed away over time but perhaps, some of it sticks to shareholders. And my question is, do you think over the long run, some of the benefit sticks to shareholders? And maybe it's even beyond auto insurance, maybe it's other businesses you have as well.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, what people do generally with that is they take what they want to be the answer for them and then they hire -- or they just attach themselves to some economist who gives them a more complicated way of saying it's all going to be wonderful because it's happened. But the answer is that in the case of our regulated public utilities, the benefits are all supposed to go and will go to the utility customer, because we're entitled a return on equity if we perform well, and we're not entitled to get excess returns because our tax rates changed. And similarly, if tax rates would go back up, we would expect to get compensated for that. So on that area, and that was $5 billion or $6 billion for us, but in that area, absolutely goes to the user, the consumer, and it should. Then the question is, with the remainder, does it get competed away or not? And the answer is sometimes it does, sometimes it gets competed very quickly and substantially, sometimes it may be slow and other times, it probably won't. The one thing you know is that the change in the corporate tax law was good for shareholders generally and Berkshire shareholders, I mean, and that's what Congress passed and the intent had to be that they were going to cut taxes, that shareholders would get a particularly large portion this time and some of you will agree with that politically and some of you won't agree with it politically but you'll all benefit. And I think it's human nature if you're getting a break to say it's going to work wonderfully for everybody else, and we'll find out whether it will or not. It's very, very, very difficult in economics to measure the impact of single variables. You cannot just do one thing in economics. People kind of learn that in physics and talk about butterflies in China and all that sort of thing, but the -- every question you get in economics and that's used in any statement, you should say: and then what? And when you get into the "and then what," you start favoring people who give an answer to that in political life. That happens to usually help you in some way or another, including your pocketbook. And we've seen that with this and it's helped the shareholders of Berkshire Hathaway. I would say that some will be competed away, some by all of the utilities and some will -- benefit Berkshire shareholders. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

I have nothing to add.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay, station 3.

**Unknown Attendee**

My name is [ Kevin ] and I'm from Shenzhen, China, currently studying finance and philosophy at Boston College. I have a rather broad question. In this more and more globalized world, what do you think our younger generation can do to best leverage our background and experience of both China and U.S. to create values and for the benefit to countries economy and relationship? And what do you see valuable in a person with a multicultural background?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, I think an answer to the last question, I think it's terrific to have a multicultural background. I never was any good in languages but if I were in college today and in either country, I'd be learning the language of the other country because I think it would be a great advantage over time. The first part of the question, I'd like to have that stated again to me. I want to make sure I'm answering your specific aspect on the -- I think it's going to be good for your future but I'm -- can we have the microphone on up there again?

**Unknown Attendee**

So the first part of the question is like, what do you think our younger generation can do to best leverage our background and experience of both China and U.S.?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, I'd start with being multilingual. I mean certainly, in terms of -- I mean, obviously, you want to be able to express yourself in both. And the better you can understand obviously, the culture of another society, obviously, that's a benefit. But I think the market system, modified as it may be both in China and in the United States, the way -- it really does -- there will be an invisible hand to some extent that does work to improve the lot of future generations by the fact that both China and the United States and the rest of the world is improving. I mean, it is much better in my view, particularly in the nuclear world, but it's much better to have people prospering throughout the world partly through their own efforts but partly through their interactions with the rest of the world. And we've made a lot of progress in that respect, particularly since World War II. I mean, it was a terrific idea to have the Marshall plan instead of behaving like we did after World War I and getting the result that we got. I think we behaved much more intelligently after World War II. So I'm bullish on the future of the United States but I'm bullish on the future of China and to a significant extent, the rest of the world, that people are going to be living better 10, 20, 50 years from now. And I don't think that's something that can be stopped even. Charlie? Absent weapons of mass destruction.

**Charles Thomas Munger**
*Vice Chairman*

Yes, well, the multicultural stuff, it wouldn't do you much good to be fluent in both English and Chinese if you're, say, a proctologist in China or a proctologist in Nebraska. So if you're going to use your multicultural background, you've got to work at some interface between United States and China and you can raise money in the United States and invest it in China like [ Leo ] does, or you can be some kind of an importer or a trade specialist. But you've got to get near that interface to benefit from being bilingual and so on.

**Warren E. Buffett**
*Chairman, President & CEO*

But you would bet that the interface will be substantially greater?

**Charles Thomas Munger**
*Vice Chairman*

Huge, huge.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, and that's what you want to prepare for.

**Charles Thomas Munger**
*Vice Chairman*

Yes, and I think that generally speaking, if we get multicultural, you can also be multidisciplinary. But generally, I think people make more money if they're very narrowly specialized, like the proctologist, and it's much harder to make a lot of money for most people if you try to and imitate Warren and me.

**Warren E. Buffett**
*Chairman, President & CEO*

I'm glad I didn't meet him earlier. Okay, Andrew?

**Andrew Ross Sorkin**

Okay, this question comes from someone who says: I am a Berkshire employee and shareholder. I read an investigative article from ProPublica in The Washington Post that many of Berkshire's various units only offer 401(k) plans with high fees. They're actively managed rather than the low-cost indexes you've advocated as the best path for savings for retirement. The article's author said he contacted the company and nobody would comment. Will you do something to improve our 401(k) offerings to match your investment philosophy? And from an operational perspective, how did this happen, given your strong views on the topic?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, I've absolutely said what many, many times through annual reports and our managers know what I think about the attractiveness of having an index fund option, but they all have different plans, different histories and they run their businesses. And who knows which particular -- if you go back to the older businesses they have defined benefit pension plans, generally. Nobody puts them in anymore. Then the question is, do you transition to something else? In the end, we overwhelmingly let our managers make those kind of decisions and others. And my guess is there's a very high significant percentage of people who have worked at a company that has a 401(k) plan, will have an index fund option, but they may not in some cases. The only thing we -- I think we have asked the companies to have a limit on the percentage I think that they might put in Berkshire's stock through the 401(k). We don't want people whose jobs who are tied to Berkshire. And we certainly don't want to be in the position of encouraging to put a 100% or something of their savings in Berkshire itself, I don't want to be in that position. But I don't think even there, we've insisted on any company doing that. I think we've probably made that -- we've been asked about it once or twice. I think we've gotten that suggestion. But the managers who run the companies, the employees, if they feel -- I mean, some of our companies have human relations departments, if they feel that they'd like different options or something like that, they should make those views known to the managers. And in some cases, the managers I think, will pay attention to them and others, they probably won't. We've got a wide variety of managers that run our businesses and we're not going to start trying to run them from Omaha. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, I think you're right, that has happened, that business of high fee choices because we've delegated the whole subject to the managers of the subsidiaries and so, no attention at all is being given to the employee choices at headquarters. And what you're pointing out is that a lot of the employees in the subsidiaries would do better if they indexed instead of choosing what they did choose. And my guess is, you're absolutely right about that. And if there are any people who are managers in the business today, I hope they'll do a little better at encouraging better choices.

**Warren E. Buffett**
*Chairman, President & CEO*

Although I wouldn't -- we wouldn't want them -- we don't want them to interfere too much in directing what they -- we can take over human relations.

**Charles Thomas Munger**
*Vice Chairman*

No, it's up to the managers but we wouldn't object to a little different viewpoint.

**Warren E. Buffett**
*Chairman, President & CEO*

And we have made it very clear what we think. I mean, they just -- some of them don't listen to us. Okay, Gregg?

**Greggory Warren**
*Morningstar Inc., Research Division*

Warren, you've noted time and again that there's a strong common culture shared across Berkshire subsidiaries, built on a commitment to honestly and integrity, a focus on the long term and an emphasis on customer care. And then it's also critical to find cultures that mesh well with Berkshire's when acquiring operating companies. In most cases, the managers that are currently running these subsidiaries are the same individuals or members of the families that originally sold their firms to Berkshire, leaving them with a vested interest in the businesses they are running and a strong connection to the culture they tend to share in common with Berkshire. It seems to me that the greater challenge is in ensuring that the large, publicly traded firms that have been acquired an account for a meaningful and growing amount of Berkshire's overall value stayed the course. Could you comment on whether or not this is the case and what the greatest challenge is for you and Charlie when it comes to not only maintaining Berkshire's culture but in finding firms that would fit in well with what you've built?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, I think the culture is very, very strong and I think it gets reinforced. Frankly, I think it gets reinforced by the shareholders we have. I mean, we have a different body of shareholders and we look at those shareholders, I think, in a somewhat different way than a good many other companies do. I mean, I think there are a fair number of public companies who wish they didn't have public shareholders. We're happy to have public shareholders. And we like having individual shareholders and we don't favor institutions and were not going to give guidance and talk especially to them on investor calls and all that sort of thing. But we want our -- we wanted to be directly with -- we want shareholders who are partners, basically. And that begins with that, it goes to the directors. We have directors who are not -- well, I've been on 19 boards and I've never seen another board like ours, and I think it's terrific that we've got the people who represent, in many cases, lots of shares themselves. I think it's special people, they -- it's a group of owner-oriented, Berkshire-conscious, business-savvy owners and we don't have anybody on the board because they're a leading educator or whatever it may be. We want people who basically think about how to run a business well for themselves and for their partners. And we've got managers who fit into that culture, who have chosen that culture in coming with us and sometimes, we have the second or the third or fourth generation of, say at the Nebraska Furniture Mart, a share of that. Is it perfect? No, it's far from perfect. I mean, you don't get everybody thinking the same way. We have people that are very independently minded, running a lot of businesses and some of them have -- they have different political beliefs, they have different -- they see through different lenses than we do to some degree. But in terms of having a common, strong, positive culture, I don't think there's any big public company that has it any better than Berkshire. And I think that will continue because people often do it a great deal. Cultures get passed along, you do things that are consistent with the culture, so you do what you talk about is what you do and you don't find people saying: we're a wonderful partnership and then voting themselves huge options, and then a whole bunch of other people will say options beneath them because they can't look like they're taking it all for themselves and arranging -- I've heard about some deal where they get paid off with many, many, many billions of dollars the other day, and we won't name names. But we've got as good a culture you can get and I would say net, it grows stronger. We have a few people all of the time that really don't buy into it entirely. I mean, it is not 100% but it's close to it and I think it gets closer all the time as we go along and we'll keep -- we will try to keep behaving in a way that reinforces it and doesn't dilute it. And I think that will not only work for Charlie and me, but it will work for our successors very well. It won't be perfect. Charlie?

**Charles Thomas Munger**

*Vice Chairman*

Every time I come to one of these meetings and sit in the Managers Luncheon, I feel more strongly at the end of the luncheon that the culture and values of Berkshire Hathaway will go on and on for a long time after the present management is gone. In fact, I think it will go on after all of the present managers are gone. I think we've started something here that will work well enough so that it will last. And one of the reasons it will last is it's not that damned easy to duplicate. So the one that is present is likely to just keep going and going. Think of how little direct copying of the Berkshire system there has been.

**Warren E. Buffett**
*Chairman, President & CEO*

And -- but it won't produce the returns it's produced in the past they did.

**Charles Thomas Munger**
*Vice Chairman*

No, I think it's going to last a long time for a very simple reason, it's going to deserve to last a long time. It's going to work.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Station 4.

**Unknown Shareholder**

My name is [ Christian Muts ], I'm a proud shareholder from Cologne, Germany. It is my pleasure to be here. My question relates to the Berkshire Insurance operations. When I look at the quarterly balance sheets of the last 2 decades, I noticed a pattern that I kindly ask you to discuss. The sum of cash plus fixed income always have us around 100% of the amount of insurance float. Therefore, my question is, is it fair to say that from the $128 billion of consolidated cash plus fixed income as of March, $116 billion are actually needed to support the insurance operations?

**Warren E. Buffett**
*Chairman, President & CEO*

No, I appreciate it.

**Charles Thomas Munger**
*Vice Chairman*

The answer is no, yes.

**Warren E. Buffett**
*Chairman, President & CEO*

The answer is no, but he deserves an explanation of how this -- maybe I haven't looked at it the way he's looked at it. We would have 100 -- we would much rather have a number closer to $20 billion than to have $116 billion. And we do not correlate or in effect, measure the float and then decide how much to put in -- or leave in cash and fixed income, it's a -- the fact -- our float keeps growing and lately, our cap, which is by design and it's been terrific for us. And our cash and cash equivalents is growing because the competition for acquisitions has become much stronger, as both the money has piled up and the buyers of businesses and because that has been so cheap and a variety of factors. But I don't think those are necessarily permanent. In fact, to be reasonably sure, they aren't permanent, it's just a question of when they change. We are not tying, as Charlie said, we're not tying the cash and cash equivalent with all the float. The float is surprising. The float went up $2 billion in the first quarter and there is no way that that float can shrink a lot in a short period. It's just structurally has been set up in such a way that it will not -- it cannot shrink. And actually I think it will grow a little bit for a while. I mean, I've always been amazed by how much it has grown. We've got so much more float than any property casualty company in the world, and it's pretty amazing that it all came from that little building that Jack Ringwalt built, and picked the location because it was near the tennis courts.

Okay, Carol? Oh, Charlie.

**Charles Thomas Munger**
*Vice Chairman*

Well, very encouraging recent developments. Some of the cash has gone up recently for securities we vastly prefer over the cash. And we have a lot of cash that could be -- or anything that could be deployed in securities we might like a lot better than treasury notes, so stay tuned.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, to make it very simple. In the first quarter, we earned 5 -- from operations, we earned a little over $5 billion. Now we only spent about our depreciation. Normally, we would spend somewhat more than that but it's 5-and-a-fraction billion. $2 billion came in net from float, so that's $7 billion that basically in the first quarter, that would have been added to our cash if we hadn't done something with it. And instead, our cash and equivalents went down because we net invested more in equities by some margin in the $7 billion that came in. But we do have this position where even absent a change in float, about $400 million comes into Berkshire every week, which is very comfortable, and we will -- we want to get it so that more than $400 million is going out in the productive assets and we succeeded in doing that in the first quarter. Net, net, we improved our position in the first quarter. Carol?

**Carol Loomis**

In your 1999 article in Fortune Magazine, you stated your belief that after tax corporate profits were unlikely to hold much above 6% for any sustained period due not only to competition but also to public policy. You stated in the article: if corporate investors in aggregate are going to eat an ever-growing portion of the economic pie, some other group will have to settle for a smaller portion. That would justifiably raise political problems. Since 2008, after-tax corporate profits have been 8% to 10% of GDP. Do you believe that is a permanent shift in the U.S. economy? And of course, we have to think about the latest tax bill. Or will corporate profits revert back to the 4% to 6% of GDP range that was normal in the 20th century?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, it's been an interesting development during that period. It goes back a little bit before that period. But you now have the 4 largest companies by market value in the United States, a $30 trillion market, you have 4 companies that essentially don't need any net tangible assets. And if you go back many years, I mean, if you looked at the largest companies, Carol used to put out the Fortune 500 list and it would be AT&T and General Motors and those companies that -- ExxonMobil, it was companies that just required lots of capital in order to produce earnings. So American industry has gotten incredibly more profitable in aggregate in the last 20 or 30 years. You look at the return on the S&P 500, the earnings as a percent of net tangible assets, and the rest is just, you buy a company that has $1 million worth of net worth and you pay $1 billion for it, it still only has $1 million of net worth. I mean, you just paid more for it, so the basic profitability of the company is huge even though your investment may be at a significantly higher price. And so that what has happened is that I think if you look at the earnings on tangible net worth of the S&P 500, compared to 20 years ago, it is amazing and that is really due to the fact that this has become somewhat, you can call it an asset-light economy. And those 4 companies that are in 10% of the -- they comprise close to 10% of the market value of the entire publicly traded corporate America, and they don't take any money, basically. And that is a changing world and they will earn even more money with the tax rate going down. And I don't think people have quite processed all that information in terms of what is going on in the market. You don't -- Carnegie built a steel mill and then he paid it off, where he borrowed a little money and then he built another steel mill and all of it was running, but it was enormously capital-intensive. And one industry after another, AT&T was enormously capital-intensive. And now, the money is in the asset-light. I mean, huge money is in the not only asset-light business but the negative asset. IBM even, it has no tangible -- it has a net minus tangible net worth. There's nothing wrong with that, it's terrific, but it is not the world we lived in 30 years ago. And in that sense, I didn't see that coming in 1999 when I wrote whatever I wrote there. It hasn't changed the profitability of the asset-heavy companies, particularly. I mean, it isn't like oil. If you take the 5 most capital-intensive industries in the '90s, I don't think you'll find that their earnings on tangible assets have increased a lot, but you will find that this group has moved in. It really doesn't -- they don't need any net tangible assets at all or they need very minor amounts. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

There's also a lot of financial engineering that's raised leverage even on the capital intensive businesses. And what Warren may have predicted earlier on when you wrote that very scalawag article, he didn't invest wrong and so it just shows it's hard to make these economic predictions. You are very right on that one, Warren.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, actually, the performance of the stock market since then has been pretty accurate.

**Charles Thomas Munger**
*Vice Chairman*

Yes, that's true.

**Warren E. Buffett**
*Chairman, President & CEO*

Being right for the wrong reason or something, or wrong for the right reason. Anyway, Jonathan?

**Jonathan Brandt**

Berkshire received a $10.2 billion retroactive premium from AIG early last year. If the upwardly revised estimate of $18.2 billion of ultimate claims proves to be correct, will the cost of float, adjusted for favorable tax attributes, likely be lower or higher than what Berkshire would have paid to borrow $10 billion for a similar duration?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, we certainly go in with the idea that it will be -- the cost will be lower, and it's an interesting situation. We -- essentially, AIG was one of the largest property casualty -- particularly, commercial property casualty companies in the world said, we want to give you all of the losses that we incurred in a very big percentage of our domestic business before December 31, 2015, and we will pay the first $25 billion and then after we paid $25 billion, AIG pays $25 billion, then you pay 80% of the next $25 billion. So the -- and they gave us $10 billion for doing that and that's -- if we are correct about our estimates of how much money will be paid and when it will be paid, we should come out being better off than if we had borrowed a similar amount. We have a history of doing 10 or so, maybe 12 big deals like that, we hold the record. We did it for Lloyd's of London 10 or more years ago and we did it now with AIG. And sometimes, we've been on the low side in our estimate and sometimes, we've been on the high side so far. AIG just said that they -- I think they paid 15-and-a-fraction billion on these pre-12/31/2015 losses. They paid 15-and-a-fraction billion, but the payments tend to trickle down over the years as you get further away from when the losses occurred. So I would say that we still feel okay about it and we'll be wrong one way or the other. Everybody is when you estimate losses that may not get settled for 20 or 30 years. But so far, on the group as a whole, these deals we've done, we've been okay. And I think on the AIG thing, we think we'll be okay. And I think AIG thinks we'll be okay. I mean, they entered it for good reasons of their own, so it looks okay. Sorry to get in this technical stuff but Jonathan always asks me questions like that so I have to be ready to -- I want to answer them. Okay, Station 5.

**Adam B. Bergman**
*Sterling Capital Management LLC*

Good afternoon. My name is Adam Bergman with Sterling Capital in Virginia Beach, Virginia. I'm here with my daughter, Michelle, from Cape Henry Collegiate in Virginia Beach.

**Unknown Attendee**

Hi, Warren. Hi, Charlie.

**Adam B. Bergman**
*Sterling Capital Management LLC*

Our question for you is how you go about attempting to forecast the degree of future success of one specific product in a good business versus another such that you invest in American Express and Coca-Cola rather than Diners Club or RC Cola, for example?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, with American Express, it was an interesting situation because Diners Club got there first. I think American Express in a certain sense, I mean, they're there for a lot of reasons but they went into the credit card business because they were worried about what was going to happen to traveler's checks and although traveler's checks still exist in a significant way. But the interesting thing when American Express went into competition with Diners Club and with Carte Blanche, as I remember, that also existed at the time, was instead of charging less than Diners Club and going in figuring they were going against the established kind, they'd come in at a lower price, they went in it at a higher price, as I remember. And the American Express, the centurion was on that card, I've got one that I got 1964 but they weren't more then. It had more value in that time. I mean, it got better representation. And frankly, if you were a salesperson out with somebody and you could pull out that American Express card with that centurion, you look like you were J.P. Morgan. If you pull out a Diners Club and had a bunch flashy signals, you look like a guy that was kiting his checks from 1 month to the next. A fellow named Ralph Schneider and Al Bloomingdale developed the Diners Club and they were very smart about getting there first but they weren't smart about how they merchandised it subsequently. RC Cola, it did -- there are all kinds of colas that came after Coke. I mean, you go back to 1886 and come up with something like a Jacob's Pharmacy that's incredibly successful, fairly soon, you're going to get lots of imitators. But Coke really is the real thing and if you offer me RC Cola and say I'll give it to you at half the price of Coca-Cola, in terms of drinking it, I mean, this is a product that's 6 and a -- just 2.5 ounces sold for $0.05 in 1900. And now if you buy it on the weekend and buy it in large quantity and everything, you're not paying that much more. This newspaper was $0.03 in 1942. The amount of enjoyment per reel in terms of the reel of what you pay for this has gone dramatically down in inflation-adjusted money. So it is a bargain product. You have to look at See's Candy. If you live in California and you were a teenage boy and you went to your girlfriend's house and you gave a box of candy to her or her mother and father and she kissed you, you lose price sensitivity at that point. So we really want products where people feel like kissing you rather than slapping you, it's an interesting thing. I mean, matter of fact, we're betting on the ecosystem of Apple products but led by the iPhone and I see characteristics in that, that make me think it's extraordinary, but I may be wrong. And so far, we've been -- I would say we've been right on American Express and Coca-Cola. American Express had this huge salad oil scandal in 1960, happened in '63 in November, right around the time Kennedy was shot. And that was, we were really worried about whether the company would survive, but nobody quit using the card, nobody quit using the traveler's checks. And they charged a premium price for their traveler's checks. So there are things you can see around consumer products that sometimes can give you a pretty good insight into the future and then sometimes, we make mistakes. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

I've got nothing to add except that if we've been offered a chance to go into Coca-Cola right after it was invented, we probably would have said no. It would have looked kind of silly to us.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, unless we drank it now, Charlie, listen. No, he's right. I mean, we don't foresee things that we haven't got a lot of evidence in on. I mean, we want to see a lot of -- and we're talking about a consumer product. We want to see how a consumer product behaves under a lot of different circumstances. And then we want to do something -- actually, there was a book by Phil Fisher written around 1960 called Common Stocks and Uncommon Profits, it's one of the great books on investing. And it talks about the scuttlebutt method of investing, which was quite a ways from what Ben Graham taught me in terms of figures, but it's a very, very good book. And you can learn a lot just by going out and using some shoe leather. Now they called them channel checks now or something like that, but it's -- you can get a feel for some products and then there are others you can't. And then sometimes, you're wrong but it is a good technique. It's an important investing technique, I would say that. And Ted and Todd do a lot of that, they have people -- some people help them out on doing it too. Charlie has done it with Costco. I mean, he's -- I mean, all the time, he is finding new virtues in Costco and he's right incidentally. I mean, Costco has an enormous appeal to its constituency and they delight -- they surprise and delight their customers and there is nothing like that in business. If you haven't delighted customers, you're a long way home. Okay, Becky?

**Becky Quick**

This comes from John Haggerty of BrightStar Capital Partners who writes: Warren, you're stepping down from the Kraft Heinz board at a time when the company is looking to do a large acquisition, Unilever, for example. Do you fundamentally disagree with the combative nature of hostile bids, activist investing and competitive proxy contests?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, we will not make hostile offenders ourselves. I do not believe there's anything fundamentally wrong with the idea. I mean, if you take the Fortune 500 companies, I'm sure that all 500 are not managed by the best or in some cases, even the friendliest to the investor and managements in the world. So I don't think it's evil or anything to conduct a hostile offer for a company. It's just we won't do it and we don't want to get into that. We like being liked by the managements that we join because we're counting on them to run the company, and we're not bringing in a whole bunch of people that know how to change businesses. We seldom take a position opposite the management, very seldom on anything involving a proxy, a contest of sorts, but we don't rule it out. We don't think every management is entitled to be -- they don't have a lifetime hold on their business, but it's not our style at all to -- well, we won't do it in terms of initiating it ourselves and we'd be very, very, very unlikely to support a contest but we have voted against a couple of propositions over 50 years that managements have had made in relation to stock options. We've withheld a vote at Coca-Cola a few years ago to express our opinion, but we don't think it's evil for the shareholders. In some cases, they have different opinions about who should run the company or whether compensation is appropriate or matters of that sort. The stockholders still own the company. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

I've got nothing to add to that. I don't envy these people that are in these unfriendly uproars all the time. Imagine doing that after you're already rich, it's insane.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, we are definitely not looking for it. We don't -- there are certainly companies that deserve challenge. I mean, and they propose things that deserve challenge occasionally. But again, it's not our main activity. And the question was asked in reference to Kraft Heinz. The people of 3G are great, great managers. They've been wonderful partners. I have made a determination before we got involved where I was going to be on no more public boards. I'd been on 19 of them and it takes a lot of time and they asked me if I could go on for a while and I did. But it really is like 7.5 days or something and if you're on a bank board, it may be quite a bit more than that. I mean, they're -- just being on a public board usually means quarterly meetings plus maybe an extra one. And at 87, I think I've now learned what happens and it's fine but I don't want to spend 7.5 days a year when I maybe can call people that I trust and admire who are on the board. And in 5 minutes, I'd find out what's going on or whatever it may be, any questions that come up. And so we are their partners and delighted to be their partners. And now, we have 2 people on the board of Kraft Heinz and they can do the traveling and I can stay home. Charlie, how many public -- you're on Costco, of course, but over your lifetime, how many public boards?

**Charles Thomas Munger**
*Vice Chairman*

Well, I -- Costco, except for just -- like the Daily Journal where I own part of it, Costco is the only public board, but if it wasn't Berkshire or something I owned personally. I was on Kansas City Power and Light. Boy, that goes way back but basically, it hasn't happened. I don't envy people who float around a lot of different board meetings.

**Warren E. Buffett**
*Chairman, President & CEO*

No, generally speaking, they have very little influence and spend a lot of time. And the trouble is, if you're going to a board meeting, particularly if you get to the international. I mean, sometimes, they feel they have to have one that's international. They feel they have to take up a fair amount of your time or it wouldn't have been worth coming thousands of miles for it. So you get a lot of the show and tell stuff that I find my mind drifting. Okay, [ Gary ]?

**Unknown Attendee**

Yes, you said you are looking for noninsurance large acquisitions to put that cash to work. And when you've said that, I usually thought of the United States because you're a big fan of the U.S. business. And I just was wondering whether you're seeing more opportunities as the rest of the world opens up, grows, whether there's opportunities for some of those mega transactions in other parts of the world, say, Asia or Europe.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, [ Gary ], I would say that I've been disappointed in that because we do see some outside the United States and thank heavens, we saw the one we saw in Israel some years ago when Eitan wrote me a letter, but we bought a business, which was a very important part of Berkshire now. But we are still not -- they're certainly aware of Berkshire Hathaway outside of the United States but they don't sort of pick up the phone automatically. In the United States, I think any large particularly private company that thinks -- just thinking about doing something, they at least think about merger and -- but that, in Europe or Asia, we are not embedded in their minds the same way. They know about us, they know we've got a lot of money and they know we like to buy things, but we really -- we're on the radar screen big time in the United States and we're not as -- we don't -- the immediate desire to be sure that they thought about the Berkshire option does not occur the same way outside the United States. And we've tried to encourage it a few ways but I would say that the results have not been great at all and -- but I hope tomorrow, I get a call from Germany or Britain or Italy or you name it, and Australia and wherever it may be. And I hope I get a call and then we get an opportunity to do it. There's a good many countries we'd be quite happy to put substantial money into. And like I say, our experience in Israel has been just terrific. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Yes, but the corporate acquisition game now, it's so driven by the leverage buyout and this so-called -- what do we call them? Strategic, yes, strategic. I usually translate that into barnyard language. And we're so -- there's so much craziness in price from our viewpoint. Of course, it's very hard for us to do it. The people in the leveraged buyout game who love massive leverage and don't mind high prices, even they are getting nosebleeds. It's hard and it's not an environment that means it allows Berkshire to just go out and buy a whole lot of companies.

**Warren E. Buffett**
*Chairman, President & CEO*

We made this strategic deal...

**Charles Thomas Munger**
*Vice Chairman*

We have to wait.

**Warren E. Buffett**
*Chairman, President & CEO*

We made a strategic deal with [indiscernible] do you remember? Have we ever made a deal with regard to strategic?

**Charles Thomas Munger**
*Vice Chairman*

We never had a strategic plan unless you've hidden it from me.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay, that answers that. Station 6.

**Unknown Shareholder**

I'm [ Brady Richie ] from St. Louis, Missouri, shareholder since 1996. Warren, you and Charlie have been critical of business schools in the past and what they teach. With respect to value investing in superinvestors of Graham-and-Doddsville, you featured the returns of many great investors with different backgrounds, work and education, with the lesson being following the philosophy is the key. To be successful today, does it still just fall back to Chapter 8 of the Intelligent Investor? And what do you think of programs and designations such as CFA, CFP, et cetera, which purport high standards yet rooted heavily into academia? And I'd like to challenge you to a round of bridge tomorrow.

**Warren E. Buffett**
*Chairman, President & CEO*

What was the last part?

**Charles Thomas Munger**
*Vice Chairman*

Well, what do we think about..

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, business schools and all that.

**Charles Thomas Munger**
*Vice Chairman*

New business schools and all that.

**Warren E. Buffett**
*Chairman, President & CEO*

I didn't catch the last one. Oh, he challenged me to a round of bridge, okay. I went to 3 business schools and at each, I found a teacher or two. I went to 1, specifically didn't get a given teacher. But each one, I found a teacher or two that I really got a lot out of. So we're not anti-business school here at all. We do think that the priesthood say, 30 years ago for example in terms of -- or 40 years ago in terms of efficient market theory anyway, they strayed pretty far in our view, from the reality of investing. And I would rather have a person -- if I got to hire somebody among the top 5 graduates of #1, 2, or 3 of the business schools and my choice was somebody that had -- was bright but had Chapter 8 of the Intelligent Investor, absolutely it just was natural to them, they had it in their bones, basically. I'd take the person from Chapter 8. This is not -- look, what we do is not a complicated business. It's got to be a disciplined business but it does not require super high IQ or anything of the sort. And there are a few fundamentals that are incredibly important and you do have to understand accounting, and it helps to get out and talk to consumers and start thinking like the consumer in many ways in certain industries and all of that. But it just doesn't require advanced learning and I certainly -- I didn't want to go to a couple. So I don't know whether I would have done better or worse if I'd just quit after high school and read the books I read and all of that. I think that if you run into a few great teachers and they really change the way you see the world to some degree, you're lucky and you can find them in academia and you can find them in ordinary life. And I've been extraordinarily lucky in having great teachers including Charlie. I mean, Charlie has been a wonderful teacher. And any place you can find somebody that gives you insights into things you didn't understand before, maybe makes you a better person than you would have been before, that's very lucky and you want to make the most of it. If you can find it in academia, make the most of it and if you can find it in the rest of your life, make the most of it. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, when you found Ben Graham, he was unconventional and he was very smart and of course, that was very attractive to you. You found out at work and you can make a lot of money where you're sitting on your ass. Of course, you were an instant convert and so...

**Warren E. Buffett**
*Chairman, President & CEO*

It still appeals to me actually, I mean,..

**Charles Thomas Munger**
*Vice Chairman*

But the world changed. Before he died, Bill Graham -- I mean, Ben Graham, recognized that the exact way he sought undervalued companies wouldn't necessarily work for old times under old conditions. And that's certainly the way it worked for us. We gradually morphed into trying to buy the better companies when they were underpriced instead of the lousy companies when they were underpriced. And of course, that worked pretty well for us and -- Ben Graham, he outlived the game that he played personally most of the time. He lived to see most of it fade away. And just to find some company that's selling for 1/3 of its working capital and figure out it could easily be liquidated and distribute $3 for every $1 of market price. Lots of luck if you can find those in the present markets and if you can find them, they're so small that Berkshire wouldn't find them of any use anyway. So we've had to learn it every game and that's a lesson for all the young people in the room. If you're going to live a long time, you have to keep learning. What you've formerly knew is never enough. So if you don't learn to constantly revise your earlier conclusions and get better ones you were -- I always use the same metaphor, you're like a one-legged man in an ass-kicking contest.

**Warren E. Buffett**
*Chairman, President & CEO*

If anybody has suggestions for another metaphor, send them to me. Graham, incidentally -- one point, important point. Graham was not scalable. I mean, you could not do with really big money. And when I worked for Graham-Newman Corp., here he was, the dean of all analysts, and he was an intellect above all others around that time. But the investment fund was $6 million and the partnership that worked in tandem with the investment company also had about $6 million. So we had $12 million. We were working with, now you're going to make adjustments for inflation and everything. But it was just a tiny amount. It wasn't really scalable. And the truth is, Graham didn't care because he really wasn't interested in making a lot of money for himself. So he had no reason to want to find something that could go on and on and become larger and larger. And so the utility of Chapter 8 in terms of looking at stocks as a business is of enormous value. The utility of Chapter 20, about a margin of safety, is of enormous value, but that's not complicated stuff.

**Charles Thomas Munger**
*Vice Chairman*

I finally figured out why the teachers of corporate finance often teach a lot of stuff that's wrong. When I had some eye troubles earlier in life, I consulted a very famous eye doctor, and I realized that his place of business was doing a totally obsolete cataract operation. They were still cutting with a knife after better procedures had been around, and I said, "Why are you in a great medical school performing absolute obsolete operations?" He said, Charlie, it's such a wonderful operation to teach." So that's what happens in corporate finance. They get these formulas and it's a fine teaching experience. You give them a formula, you present a problem, they use the formula, you get a real feeling of worthwhile activity. Only one trouble it's is all balderdash.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, whenever you hear a theory described as elegant, watch out. Okay, Andrew.

**Andrew Ross Sorkin**

This question -- we got a couple like this one. Comes from Loren Taylor, Wolfe's managing partner at Impactive Capital. Warren, you've recently said that one of the things that make you optimistic about America is women entering the workforce and the "doubling" of the talent that's effectively employed in that work force. When it comes to positions of leadership, however, women make up less than 21% of boards of S&P 500 companies and an even smaller 5% of the CEOs. What can Berkshire do and what is Berkshire specifically doing as a major investor in many of these large companies to advance gender equality, both at the board level and among senior leadership?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, again, as I've pointed out in the past, one of my sisters is here. I have 2 sisters that are absolutely smart as I am and they have better personality, as anybody that knows both of us -- or all of us can attest. And they didn't -- even remotely have the same opportunities I have. And I have this 1942 New York Times, and women could be nurses or teachers or retail clerks or stenographers. And that actually worked enormously to my advantage when I was a kid in Omaha in the '30s because I had way better teachers. That was a job open to women. I didn't have a single male teacher in grammar school, and Charlie didn't when he went to Dundee, I don't think either. And we had this huge talent pool that was being funneled into very few opportunities, and we got better than we deserved in terms of a market system producing it. I -- again, our managers run their companies, but I've probably named -- before we made this management change. I probably named only 6 or 7 CEOs in the last 5 or 6 years. We don't change that much. But I would say that half of them that I named have been women, which is about what you would -- what you should do. It turned out to be the case in terms of ability. Now there is a certain pipeline problem, but that gets cured with time, and again, use that forever as an excuse. And I feel very good about the decisions we made for CEOs. I prefer all our CEOs to live forever, and one woman almost did that, that we hired. Mrs. B lived to be 104. She retired at 103. And that's a lesson to our other managers that if you retire prematurely, no telling what will happen. But it is absolutely true. It does make me bullish. It makes me bullish on the human race, but certainly in our country because if you look at what happened before the 19th amendment and then after the 19th amendment for a long time and continuing to this day. But that -- there's been significant improvement. I do feel more optimistic about the future because I think there will be more selection by merit rather than by gender, by race or by inheritance. I think that if you had a system where all businesses got passed on to the eldest son or something, I think that society would make a lot less progress than one that's merit-based. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, we did live in a different age. There's an old saying that the past is a very strange country. People behave quite differently there. And it was just totally different, and it was ridiculous. I cannot remember. I had 1 or 2 male teachers in my high school, but almost none. And the world has really changed. And within Berkshire, I've never seen any overt discrimination anywhere on the grounds of gender.

**Warren E. Buffett**
*Chairman, President & CEO*

There probably has been some, though.

**Charles Thomas Munger**
*Vice Chairman*

I'm sure that we have our share of all of the peculiarities of human nature, but generally, it's -- everything is always improved, wouldn't you agree with that?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes.

**Charles Thomas Munger**
*Vice Chairman*

And I think it will keep improving.

**Warren E. Buffett**
*Chairman, President & CEO*
Okay. Gregg?

# Question and Answer

**Greggory Warren**
*Morningstar Inc., Research Division*

Warren, in this USANA report it was noted, much as it is every year, that payment of dividends by the company's insurance subsidiaries are restricted by insurance statutes and other regulations, with Berkshire's insurance operations currently allowed to declare up to $16 billion as ordinary dividends during 2018. My question here is should we view this annual regulatory threshold for dividends as a benchmark for allowable share repurchases as well? And in the event that Berkshire wanted to buy back more stock than that or pay out even more as dividends, will there be an issue with you using capital from operations that aren't held by the insurance operations to return additional capital, with the side question here being, would the annual cash distribution for BNSF, which is held on National Indemnity's books, be excluded?

**Warren E. Buffett**
*Chairman, President & CEO*

Yes. We will obviously follow the rules of the states in which we're domiciled and -- all the rules, of course. But basically, it's the state of domestication in the insurance companies, and they do restrict the amount of dividends in any given year. Although you could, if you wanted to, request some additional amount. But we don't ever consider that, and -- but repurchases -- if repurchases were really attractive, we would do it in a very big way. And I wouldn't rule -- there's all kinds of ways that we could arrange things to do, either a very large acquisition, which I would prefer, or a very large repurchase, which I don't think is probably in the cards just because of the way our stock trades, not because we wouldn't like it at a large discount. So Charlie and I, we've got the appetite, and we would have -- we've got a lot of cash, but we could have a lot more cash. We can make any deal of -- even one of a very large size. We can make anything that came along. We can work out how to get it done. We would have -- we're not going to be doing this, but we would have partners who would come in and give us a preferential part of a partnership. That's way -- that's not like -- that's not going to happen in all probability, but there's a lot of things that we could to. So don't rule out anything based on statutory limitations of distributions from insurance companies.

**Charles Thomas Munger**
*Vice Chairman*

And that's -- we could get special permissions fee. You've got bigger dividends. We are not -- you should not assume that we're constrained by the laws of nature to the amount that we can take out under the statutes now.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay, station 7.

**Unknown Attendee**

Hi, Warren, Charlie. Thank you for everything. I'm [ David ] from [ King Global ], an investment manager in Shanghai. I've been here for 8 years. If investments are a sport in the Olympics, you are a champion team. So my question is, facing the fast-growing machine intelligence, how do you see the new competition impact the capital allocation productivity in the future? For Charlie, what is the first principle of capital allocation from general economic interest point of view?

**Charles Thomas Munger**
*Vice Chairman*

Well, 2 questions. Machine intelligence. I'm afraid the only intelligence I have is being provided by something that's not a machine. And I don't think I'm going to learn machine intelligence. Yes, if you ask me how to beat the game of Go with my own intelligence, I couldn't do it. And I think it's too old for me to learn computer science. Generally, I'm -- I think that machine intelligence has worked. After all, the machine now can beat the best human player of Go. But I think there's more hype in that field than there is probable achievement. So I don't think the world is going to be changed that much by machine intelligence. Some, but not hugely. And what was the other question? One was machine intelligence.

**Warren E. Buffett**
*Chairman, President & CEO*

I think it was capital allocation.

**Charles Thomas Munger**
*Vice Chairman*

Oh, yes. That's such a general question. Generally speaking, we're always trying to get the best to get something that's worth buying. And the human mind rejects that if you're in academia because you could come in and make one declaratory sentence at the opening of the semester, and you wouldn't have anything to do for the rest of your time. So people want to find some formula. It's what I call physics envy. These people want the world to be like physics. But the world isn't like physics outside of physics. And that false precision does nothing but get you in trouble. So I would say you got to master the general ideas and you've got to work to improve your judgment slowly, the way all the rest of us had. And I don't think most individuals have much hope of individual gain from machine intelligence.

**Warren E. Buffett**
*Chairman, President & CEO*

No, I don't. I don't think that -- I'm impressed when machines beat Go or something in this order or even win at chess or whatever it may be. I don't really think they bring much to the table in terms of capital allocation or investing. And I may be missing something entirely. Maybe I'm just blind to what's out there.

**Charles Thomas Munger**
*Vice Chairman*

You're missing a lot of very remunerative fee-earning twaddle.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, that takes care of that. So we'll go on to station 8.

**Unknown Attendee**

Dear Mr. Buffett and then Mr. Munger, thank you very much for hosting the meeting. It's really been remarkable. Thank you. My name is [ Yen ], and I'm a partner at Tiger Brokers, a leading electronic brokerage firm from China. Let me rephrase that. So I and my colleagues flew a halfway from the globe with IT, and fantastic to be here. And it's an honor -- just like everyone else in the stadium, we're honored to be here. My question is, you mentioned earlier that investors don't really have to be struggling in picking the right stocks. They would do well in picking probably the right market in the right country. China is the second largest economy and probably has the biggest growth potential. Just by passively weighting a portfolio -- by passively evaluating a portfolio, U.S. investors are significantly under-rating China. So in your opinion, what are stopping the investors from investing in China?

**Charles Thomas Munger**
*Vice Chairman*

I think the answer is you're absolutely right that we are -- American investors are missing China. And they're missing it because it's a long way away. It looks different. They're not used to it. It's complicated. The headlines confuse them. In other words, it just looks too hard, sitting in Omaha to outsmart the Chinese market. But I think you're absolutely right. It's where they should be looking.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. We've actually had a couple of investments in China. We actually -- we've done pretty well. But there were -- well, if you go back a number of years, one of the [indiscernible]. In terms of getting a lot of money into something, many billions, and we have to get billions into things to move any kind of a needle, that can be tougher in markets that you've got -- you're unfamiliar working in. And it's difficult under any circumstances. But accumulating $6 billion or $8 billion or $10 billion position in investments outside the United States can be very difficult. For example in U.K. and much of Europe, we have to report when we own 3% of a company. In fact, we could be asked to report even if we have less than 3%. That maybe gets very tough when get we a bunch of followers and a lot of publicity that probably isn't deserved in terms of what we're doing in the markets and everything. So some of the problems are -- despite the nature of our size, it would be a lot easier if we're running a smaller fund. PetroChina, we managed to get a very big position, but the government owned 90% of it. So we bought 14% of what the government didn't own, but it was still only 1.4% of the company. But Charlie actually keeps pushing me to do more in China, and we've tried a couple of times, actually. There was one operation that we got involved in.

**Charles Thomas Munger**
*Vice Chairman*

Well, you did so poorly the first time. You put in $200,000 and got about $2 billion. So it wasn't encouraging enough.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay, station 9.

**Sherman Silber**

My name is Dr. Sherman Silber. I'm an infertility doctor from St. Louis. And I have been a shareholder and coming to this meeting for 23 years, and I want to thank you very much for making my grandchildren very rich. They sometimes compare me in the medical world, infertility world as the Berkshire Hathaway of infertility because I'm so old and I come from a relatively small community. But I'm wondering about your interest in, not just Apple, but all the tech stocks like Amazon and Google because you've avoided them, you stated in the past, because they're complicated. You should stick with something you understand. On the other hand, Amazon and Google have what you call a very durable competitive advantage. They really hardly have any competitor, and that's true in China, too, of Alibaba and Tencent. So it seems like it's a conflict, and I'm wondering if you're going to be turning the corner and going into these tech companies that seem to have no serious competition.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, we certainly look at them. And we don't think of whether we should be in tech companies or not or that sort of thing. We are looking for things where we do get the durability or the competitive advantage and whether we think that our opinion might be better than other people's opinion in assessing the probability or the durability and the -- so to speak. But the truth is, I've watched Amazon from the start and I think what Jeff Bezos has done is something close to a miracle. And the problem is if I think something will be a miracle, I tend not to bet on it. It would have been better or far better, obviously, if we -- if I had some insights into certain businesses, but in fact, Bill told me early on -- Bill Gates told me early on that -- I think I was on AltaVista and he suggested that I turn to Google. But the trouble is I saw that Google was skipping past AltaVista, and I then wondered if anybody could skip past Google. And I saw at GEICO that we were paying a lot of money for something that cost them nothing incrementally. We've looked at it. I've made a mistake in not being able to come to a conclusion where I really felt that that -- at the present prices that the prospects were far better than the prices indicated. And I didn't go into Apple because it was a tech stock in the least, I mean -- Apple, because I made certain conclusions about both the intelligence with the capital that would be employed, but more important, about the value of an ecosystem and how permanent that ecosystem could be and what the threats were to it and a whole bunch of things. And that didn't -- I don't think that required me to take apart an iPhone or something and figure out what all the components were. I think it's much more the nature of consumer behavior, and some things strike me as having a lot more permanence than others. But the answer is we'll miss a lot of things that -- or I'll miss a lot of things that I don't feel I understand well enough. And there is no penalty in investing if you don't swing at a ball that's in the strike zone. As long as you swing at something at some point, eventually, that you find the pitch you should like, and that's the way we'll continue to do it. We'll try to stay within our circle of confidence. And Charlie and I generally agree on sort of where that circle ends and what kind of situations where we might have some kind of an edge in our reasoning or our experience or something that -- where we might evaluate something differently than other people. But the answer is we're going to miss a lot of things. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Yes. We have a wonderful system. If one of us is stupid in some area so is the other. And of course, we were not ideally located to be high-tech wizards. How many people of our age quickly mastered Google? I've been to Google headquarters. They looked at me like they're -- it looks like a kindergarten.

**Warren E. Buffett**
*Chairman, President & CEO*

A very rich kindergarten.

**Charles Thomas Munger**
*Vice Chairman*

Yes.

**Warren E. Buffett**
*Chairman, President & CEO*

It's extraordinarily impressive what they've done. And like I said, at GEICO, we were paying them a lot of money at the time they went public. And all 3 of them, the main characters are in. [ Sergei ] actually came and saw me but they were more interested in talking about going public and the mechanics of it and various things along that line. But it wasn't like what they were doing was a mystery to me. The mystery was how much competition would come along and how effective they would be and whether it would be a game where 4 or 5 people were slugging it out without making as much money as they could have -- one company dominate. Those are tough decisions to make. You can have industries where there's only 2 people in it and they're still very good because they'd beat each other's brains out. And that's one of the questions in the airline business. It's a better business now than it used to be, but it used to be suicide. So -- and you know that the competitive influence -- competitive factors are extraordinary in airlines. And how much better business is it with 4 people operating at 85% capacity than it was with 7 or 8 operating in the mid-70s and with more planes around. Those are tough decisions. I made the wrong decision on Google and Amazon. I just -- I really consider that a miracle that you could be doing Amazon Web Services and changing retail at the same time with probably -- without enormous amounts of capital and with the speed and effectiveness of what Amazon has done. I just -- I underestimated -- I had a very, very, very high opinion of Jeff's ability when I first met him, and I underestimated him. Charlie?

**Charles Thomas Munger**
*Vice Chairman*

Well, my comment would be that the shareholders have one thing to be thankful for. Some of the age-related stupidity at headquarters has been ameliorated by Ted and Todd joining us. We are looking at the world with the aid of some younger eyes now. I may have had a contribution.

**Warren E. Buffett**
*Chairman, President & CEO*

Significant.

**Charles Thomas Munger**
*Vice Chairman*

Beyond their own investments. And so you're very lucky to have them, shareholders, because there's a lot of ignorance in the older generation that needs removal.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. Station 10.

**Unknown Attendee**

Good afternoon. Good afternoon, Warren. Good afternoon, Charlie, and my name is [ Woo Jin ]. And I come from China and I work for [Foreign Language] family office. And we are serving high-worth individual clients in China, and you 2 have been my dream customer. I know your shareholder, Bill Gates has a family office, which -- helping his [ warehousing. ] So my question is, do you have a family office? And can we know what they do some -- anything for you? And if not, are you planning to have a family office in the future?

**Charles Thomas Munger**
*Vice Chairman*

We already have a family office. It's sitting right here.

**Warren E. Buffett**
*Chairman, President & CEO*

We would be the last guys in the world to have a family office, actually. There are a lot of them around and -- but it's not something that fit the Munger family or the Buffett family. Charlie, anything?

**Charles Thomas Munger**
*Vice Chairman*

No.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay. We'll do one more. Station 11.

**Adam Mead**

Hi, Warren, Charlie. My name is Adam Mead, Mead Capital Management from Derry, New Hampshire. In the past, you have touched on certain compensation arrangements with key executives. Could you please provide some specific examples of compensation arrangements within Berkshire that speak to incentivizing good behavior while not penalizing the manager for size or the relative ease or difficulty of the business or industry?

**Warren E. Buffett**
*Chairman, President & CEO*

Well, that is a very, very good question and a very, very tough question because some of our...

**Charles Thomas Munger**
*Vice Chairman*

He really doesn't want to answer.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, some of our managers are in businesses that are just much easier. I mean, we've bought into a variety of businesses. People are obviously influenced by what pay arrangements are elsewhere. It wouldn't be human if they weren't. And trying to come to the right answer when you have different degrees of capital intensity, different degree -- very different degrees of basic profitability and how much you scale up based on size, because there is an incentive to grow businesses -- usually, if businesses get much larger, everybody, from the CEO down, expects to earn more money for something that -- well, they really bring the same amount of intensity and work and bullishness to it. Is really a tough question. I think that if you engage compensation consultants at public companies, which -- although they're going to recommend things that cause them to have CEOs recommend them to a lot of companies. It's just working against human nature when you have an arrangement like that. I would say that we have obviously kept a very, very, very high percentage of the managers that we hope to have stay with us. In fact, just about 100%. It's -- and I think people do like -- they do like to make their own decisions. They do like recognition. They -- most people respond -- they like doing a good job and they like the fact that we understand it, and compensation's part of that. But it's not the whole thing. And I wish I could give you some precise formulas, but there aren't.

**Charles Thomas Munger**
*Vice Chairman*

I know you really don't, Warren. It's an advantage at Berkshire to keep our individual deals private. There would be no advantage to just publish it.

**Warren E. Buffett**
*Chairman, President & CEO*

No, we're not going to do that.

**Charles Thomas Munger**
*Vice Chairman*

No, of course not. So what we're saying, he makes all those decisions personally, he's got every formula in the book, and he keeps them all private. That's our system.

**Warren E. Buffett**
*Chairman, President & CEO*

Well, we do -- we publish what the directors are paid.

**Charles Thomas Munger**
*Vice Chairman*

We publish when we have to, yes.

**Warren E. Buffett**
*Chairman, President & CEO*

Okay, it's 3:30 now. We're going to reconvene at 3:45. Charlie and I, we love the fact that our partners basically turn out for this. So we thank you for coming. I hope you've had a good time, both at the meeting and in Omaha, and we look forward to seeing you again next year. Thanks.
[Break]

# Presentation

**Warren E. Buffett**
*Chairman, President & CEO*

[Audio Gap] Chairman of the Board and director of the company, and I welcome you to this 2018 Annual Meeting of Shareholders. This morning, I introduced the Berkshire Hathaway directors that are present. And also with us today are partners in the firm of Deloitte & Touche, our auditors. [ Jennifer Tom ], is the Assistant Secretary of Berkshire Hathaway. She will make a written record of the proceedings. Becki Amick has been appointed inspector of elections at this meeting, and she will certify to the count of votes cast in the election for directors and the motion to be voted upon in the meeting. The named proxy holders for this meeting are Walter Scott and Marc Hamburg.

Does the assistant secretary have a report of the number of Berkshire shares outstanding entitled to vote and represented at the meeting? We're building the suspense here.

**Unknown Executive**

Yes, I do. As indicated in the proxy statement that accompanies the notice of this meeting that was sent to all shareholders of record on March 7, 2018, the record date for this meeting, there were 748,347 shares of Class A Berkshire Hathaway common stock outstanding with each share entitled to 1 vote on motions considered at the meeting and 1,344,969,701 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to 1/10,000 of 1 vote on motions considered at the meeting. Of that number, 537,524 Class A shares and 823,145,874 Class B shares are represented at this meeting by proxies returned through Thursday evening, May 3.

**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. 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?

**Marc David Hamburg**
*Senior VP & CFO*

I second the motion.

**Warren E. Buffett**
*Chairman, President & CEO*

The motion has been moved and seconded. We will vote on this motion by voice vote. All those in favor, say aye.

[Voting]

**Warren E. Buffett**
*Chairman, President & CEO*

Opposed?

[Voting]

**Warren E. Buffett**
*Chairman, President & CEO*

The motion is carried. The next item of business is to elect directors. If a shareholder is present and did not send in a proxy or wished to withdraw a proxy previously sent in, you may vote in person on the election of directors and other matters to be considered at this meeting. Please identify yourself to one of the meeting officials in the aisles so that you can receive a ballot.

I recognize Mr. Walter Scott to place the motion before the meeting with respect to election of directors.

**Walter Scott**
*Director*

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?

**Marc David Hamburg**
*Senior VP & CFO*

I second the motion.

**Warren E. Buffett**
*Chairman, President & CEO*

It's been moved and seconded that Warren Buffett, Charles Munger, Gregory Abel, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ronald 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 not -- now mark their ballots on the election of directors and deliver their ballots 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 proxy holders in response to proxies that were received through last Thursday evening cast not less than 605,906 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. A 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, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ron Olson, Walter Scott and Meryl Witmer have been elected as directors.

The next item of business is a motion put forth by Freeda Cathcart on behalf of shareholder Marcia Sage. The motion is set forth in the proxy statement. The motion requested the company provide a report reviewing the company's policies, action plans and reduction targets related to methane emissions from all operations. The directors have recommended that the shareholders vote against the proposal.

I will now recognize Ms. Cathcart to present the motion to allow all interested shareholders to present their views. I ask that the representative of Baldwin Brothers to limit the presentation of the motion to 5 minutes.

**Freeda Cathcart**

Good morning, Chairman Buffett, Mr. Munger, members of the board and fellow shareholders. I'm presenting this proposal on behalf of Baldwin Brothers on issue of methane asset risk. This is the second year for this methane-focused proposal. Last year, 10% of shareholders approved of it. Methane asset risk is a serious financial safety and environmental issue across the entire natural gas supply chain. The failure of a gas injection well at Southern California Gas Aliso Canyon storage facility in Los Angeles revealed major vulnerabilities in the maintenance and safety of natural gas facilities. In that situation, cleanup and containment costs have soared to close to $1 billion. Governor Jerry Brown of California has threatened to shut down the facility. Berkshire Hathaway owns the largest interstate natural gas pipeline system in the United States. It has natural gas storage, distribution and transportation facilities that may face similar safety risks through the Northern Natural Gas Company, Kern River Gas and MidAmerican Energy Corporations. On an environmental front, research indicates methane leaks could erase the climate benefits of reducing coal use to meet internationally agreed upon climate change targets. Methane emissions have an impact on global temperature of roughly 84x that of $CO_2$ over a 20-year period. Berkshire is a voluntary member of the EPA's Methane Challenge and ONE Future's Emissions Intensity Commitment framework and should be applauded for reducing its leakage rates to below the 1% target along its value chain. Since this framework is a cost-effective versus prescriptive approach, shareholders would like to understand if this cost-effective approach employed at Berkshire is sufficient maintenance and enhanced disclosure should help mitigate the potential for these financial and regulatory risks. In closing, we think it prudent that Berkshire Hathaway issue a report reviewing and disclosing the company's specific best practices, policies and safety standards for methane assets and required upgrade costs to facilities to mitigate potential business risks. The report would make it easier for investors, customers and regulators to understand Berkshire's overall approach to managing methane emissions and risks. Thank you for your consideration.

**Warren E. Buffett**
*Chairman, President & CEO*

Ms. Cathcart, can you help me out. Are there are some other people there to speak? I can't quite see from here.

**Unknown Attendee**

No, there are no shareholders who wish to speak on this issue.

**Freeda Cathcart**

There's nobody behind me to speak.

**Warren E. Buffett**
*Chairman, President & CEO*

Did you get that, Charlie? Greg, can we put up Slide 1, and if somebody will give Greg a microphone, it'd will be helpful. He can elaborate some on this chart and -- what we're doing.

**Gregory Edward Abel**
*Former Chairman & CEO*

Okay. Thanks, Warren, and I appreciate the comments there. Well, we've prepared here is in response to the proposal. It demonstrates the One Future initiative goal as it was highlighted. They'd like to see our pipelines operating by 2025 at a 1% throughput -- or a loss of throughput at 1%. I'm happy to report, as the slide shows that in 2017, our throughput loss was 0.046%, 20x better than the request in 2025. Thank you. It's a great compliment to our operating team. Obviously, they take the issue that has been highlighted very seriously. I would also add, as it was noted, we're part of the EPA program where we report on a voluntary basis. Our practices are disclosed and reviewed by the EPA and additionally added on our website. Accordingly, I strongly feel we're getting the results and disclosing the appropriate information. Thank you.

**Warren E. Buffett**
*Chairman, President & CEO*

Yes, and -- thanks, Greg. And Ms. Cathcart, we are on the same side you are on this, basically. We just are not -- we're not looking for ways to conduct more studies and prepare reports that may cost us money and generate more reports and all that. But I can tell you 2 things. This is something that is reported to the Board of Directors at Berkshire Hathaway Energy quarterly. I'm on that board. And we believe in achieving the same things, and we think Berkshire Hathaway Energy is both sensitive and effective. Sensitive to and effective in reducing methane emissions.

So if -- I think we are now ready -- the motion is now ready to be acted upon. If there any shareholders voting in person, they should now mark their ballots on the motion and deliver their ballot to one of the meeting officials in the aisles. 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 proxy holders in response to proxies that were received through last Thursday evening cast 48,040 votes for the motion and 558,640 votes against the motion. As the number of votes against motion exceeds a majority of the number of votes of all Class A and Class B shares properly cast on the matter as well as all votes outstanding, the motion has failed.

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. The proposal fails.

The next item of business is a motion put forth by a shareholder Freeda Cathcart. The motion is set forth in the proxy statement. The motion requests that Berkshire adopt a policy to encourage more Berkshire subsidiary companies to issue annual sustainability reports.

I will now recognize Freeda Cathcart to present the motion, and to all interested shareholders to present their views. I ask her to limit her remarks to 5 minutes. You have the floor, Ms. Cathcart.

**Freeda Cathcart**

Thank you so much. It is a privilege to be here and a privilege I can give thanks to my grandfather, James Cathcart, who started out in the mailroom of Gen Re and worked himself up through the company to become the chair of Gen Re. During that time, he accumulated a lot of Gen Re stock, which he bestowed generously upon his family. And when he did so, he encouraged the members of his family to do good and to pay it forward, to do something that would make a difference in the world and in our communities. For my father, he did so by being philanthropic with educational institutions with the theory that if you give a person a fish, you feed them for a day, but if you teach them to fish, you feed them for a lifetime. My focus has been on the environment with the thought that when people fish, it would be nice if they were able to eat the fish. I want to take this opportunity to clarify my proposal about the sustainability reports and put the emphasis on the word "encourage." It is evident that Berkshire Hathaway's management of allowing the subsidiaries to work without getting -- well, mandates from you is being very successful. And I wouldn't recommend changing it. You're doing a great job. Please keep it up. But I do think that there's something to be said to encourage them and support them in many ways you already are.

There is a high level of interest from investors and the public in corporate social responsibility. 1/5 of investments are based on socially responsible investment strategies. And back in 2012, I found an article by Planet Earth Herald where they wrote, "When Warren Buffett talks, people listen. He is now talking about the environment. He believes that companies need to have a triple bottom line, and respecting the environment is absolutely critical to a company's economic performance. In times" -- This is a direct quote from you, Mr. Buffett, "In times such as these, a company must invest in the key ingredients of profitability: it's people, communities and the environment." 1/3 of Berkshire Hathaway's subsidiaries already have a sustainability presence on the web. And one of them is Berkshire Energy that has the acronym respect, R-E-S-P-E-C-T, which stands for responsibility, efficiency, stewardship, performance, communication and training. And Berkshire Hathaway provides an annual sustainability summit to help bring the subsidiaries together so they can learn how to be more sustainable, how to share tips and how to be profitable. And that's excellent. But when I try to find a web presence about the sustainability summit, I wasn't able to find it. And that's where I think that we could do a better job in Berkshire Hathaway when it comes to communication with our shareholders and with the outside world about the good work that we're doing. A simple solution to that would just be to create a link on the Berkshire Hathaway website to sustainability that people could click on and go and find out about initiatives like the sustainability summit. And from there, perhaps, they could click on to go to the subsidiaries that have a web presence about sustainability to see what they're doing. In doing so, we give a window to the world where they can see what we're doing to make a difference that might inspire other corporations to follow the example, or perhaps a college student working on a paper would read about it and think that, that is a good business model, that, that's something that he wants to bring forward when he goes into his career. There is a Facebook page called Berkshire Hathaway Sustainability that will be available for shareholders in the outside world to look at, to see, research and to encourage each other to learn how we can support sustainability practices, and that is available now. I greatly appreciate this opportunity to speak with you today and to clarify what my proposal is. And I do greatly applaud and appreciate all the work that you're doing on behalf of our corporation and the world. Thank you so much.

**Warren E. Buffett**
*Chairman, President & CEO*

Thank you. Many of the managers -- a great many of the managers of Berkshire are here and are listening to you, and I suspect that a very high percentage of them agree with what you're saying. Whether they -- what they do in terms of webpages and so on, in our view, is basically up to them. But I can tell you that one leading proponent, as you mentioned, was Greg Abel, who, until recently, was running Berkshire Hathaway Energy and now as Vice Chairman. And Greg may want to say a few words on this, too. But I can assure you, our managers are listening to you.

**Gregory Edward Abel**
*Former Chairman & CEO*

Thanks, Warren. Yes, we do everything that was touched on. I'll just maybe add a few points for our shareholders. Obviously, sustainability is a priority for Berkshire. In each of our operating subsidiaries, it was highlighted that a number of them have sustainability reports, but I would go beyond that. If you go to our various companies' websites, you'll see specific actions they're taking relative to sustainability. So it may not be summarized in a specific report, but that type of information is available. I can also add that when you think of the Berkshire Hathaway Energy Corporation, we're trying to lead by example with support from Warren, Charlie, Walter Scott. I'm happy to report, if you look at where our energy production is right now at the end of 2017, 50% of our energy that is produced and consumed by our customers comes from renewable energy. That's something we're strongly communicating across the U.S. and globally as an example of what can be done in our industry. And I'm happy to report by the end of 2021, 100% of the energy utilized by our customers can be met through renewable energy in Iowa.

So I understand the concept of sustainability. We're working across our organizations to share best practices. But as Warren highlighted, it really resides in each of our companies, but there'll be -- we'll be encouraged, and you'll continue to see great results. Thank you.

**Warren E. Buffett**
*Chairman, President & CEO*

Thank you. The motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballot on the motion and deliver their 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 proxy holders in response to proxies that were received through last Thursday evening cast 67,282 votes for the motion and 544,256 votes against the motion. As the number of votes against the motion exceeds the majority of the number of votes of all Class A and Class B shares properly cast on the matter as well as all votes outstanding, the motion has failed.

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. And I would just say, Ms. Cathcart, our managers heard you and you've had an impact, and I appreciate what you've done. Walter, I guess, we're now ready for motion.

**Walter Scott**
*Director*

I move that this meeting be adjourned.

**Warren E. Buffett**
*Chairman, President & CEO*

Is there a second?

**Marc David Hamburg**
*Senior VP & CFO*

I second the motion.

**Warren E. Buffett**
*Chairman, President & CEO*

A motion to adjourn has been made and seconded. We will vote by voice. Is there are any discussion? If not all -- if not, all in favor say aye.

[Voting]

**Warren E. Buffett**
*Chairman, President & CEO*

All opposed, no.

[Voting]

**Warren E. Buffett**
*Chairman, President & CEO*
The meeting is adjourned, and thank you again for coming.