Berkshire Hathaway Inc.

NYSE:BRK.A

Shareholder/Analyst Call

Saturday, April 30, 2016 9:45 PM GMT

Call Participants

EXECUTIVES

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Vice Chairman

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Former CEO of Midamerican Energy Holdings Co and President of Midamerican Energy Holdings Co

Matthew K. Rose
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Warren E. Buffett
Chairman of the Board and Chief Executive Officer

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ATTENDEES

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Becky Quick

Carol Loomis

Cliff Galant

James E. Hansen
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Unknown Attendee

Vandermir Say

Presentation

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Good morning. I'm Warren Buffett. This is Charlie Munger. I'm the young one. You may notice in the movie, incidentally, that Charlie is always the one that gets the girl. And he has one explanation for that, but I think mine is more accurate that, as you know, every mother in this country tells her daughter at an early age, if you're choosing between 2 very old and very rich guys, pick the one that's older.

And especially, we're webcasting this for the first time, so I'd especially like to welcome our visitors from all over the world. We're having this meeting simultaneously translated into Mandarin, and that poses certain problems for me and Charlie because I'm not sure how sensible all our comments will come out once translated into Mandarin. I'm not so sure how sensible they come out initially sometimes. But we're delighted to have people around the world joining us.

Now the drill today is that I'll make a couple of introductions, and we'll show a couple of slides and then we'll go on to questions from both our 2 panels and from the audience, we'll rotate them. And we'll do that until about noon. Actually, about a quarter to 12, I will give you a rundown on a bet that was made and we report on every year. But then I'll also, in connection with that, explain -- and it ties in with it -- what I really think is probably the most important investment lesson in the world. So we'll have that about a quarter to 12, and I hope that keeps you around. And then we'll break at noon for an hour for lunch. We'll reconvene at 1:00. We'll proceed until 3:30 with questions. We'll then adjourn for 15 minutes, and at 3:45 convene the formal meeting.

I'd like to just make a couple of introductions. I hope Carrie Sova is here. Do we have a spotlight? Carrie puts this whole meeting together. There she is. Wonder woman. Carrie joined us as a receptionist about 6 years ago, and I just kept throwing more and more problems at her. And she put together the 50th anniversary book, which we've actually expanded further this year. We have a revised edition. Charlie and I autographed 100 of them. We interspersed them among the group being sold. And Carrie, while doing that, she also had a young baby girl, her second baby, late in January. But then she's going to had to put on this whole Annual Meeting. It's a remarkable achievement, and I really want to thank her. It's been terrific.

Actually, we have one surprise guest. I think my youngest great-grandchild, who would be about 7 months old, is also here today. And if he happens to break out crying a lot, and don't let him bother you, it's just his mother's explaining to him my views on inherited wealth.

We also have our directors with us, and they're here in the front row. I'll introduce them, if they'll stand when introduced. Withhold your applause no matter how extreme the urge to applaud them individually. And when we've finished, then you can go wild.

First of all, Howard Buffett, Steve Burke, Sue Decker, Bill Gates, Sandy Gottesman, Charlotte Guyman, Tom Murphy, Ron Olson, Walter Scott and Meryl Witmer. And that's our wonderful group.

Now we just have 2 slides to show you now. The first one is a preliminary summary figures for the first quarter. And you'll notice that insurance underwriting, these are after-tax figures by category, are down somewhat. The basic underwriting at GEICO is actually improving, but we had some important hailstorms in Texas toward the end of the quarter. We've actually had some since the end of the quarter, too, so there were more cat losses in the first quarter than last year.

And the railroad earnings are down significantly. And railroad car loadings throughout the industry, all of the major railroads, were down significantly in the first quarter and probably will continue to be down -- almost certainly will continue to be down the balance of the year. We have 2 companies, which we added to the manufacturing service and retailing, the Precision Castparts and Duracell. But they were added during the quarter, so their full earnings aren't shown in the figures.

In the other category, we have -- I don't like to get too technical here, and you should read the 10-K -- or 10-Q when it comes out next weekend. But when we borrow money in other currencies -- and the only currency we've done that was the euro. But we have a fair amount of money that we borrowed in euros, and the nature of accounting is that the change in value, the foreign exchange change in value each quarter is actually shown in interest expense. So if the euro goes up, we have a lot of extra interest expense that are shown that way. And it's not a realized factor, but it moves from quarter-to-quarter. And when the euro goes down, it offsets interest expense. It's a technicality to some extent, because we have lots of assets in Europe and they're expressed in euros. When they go up, it does not go through the income accounting. It goes directly to other comprehensive income. So I just -- that figure, which looks a little unusual, that's the reason for it. And we always urge you to pay no attention to the figures below operating earnings. They will bounce around from quarter-to-quarter, and we make no attempt to manage our earnings in any way that it would be smoother. We could do that very easily, but it'd be ridiculous if -- we make investment decisions solely on the basis of what we think the best investment decision is, not on the basis of how it will affect earnings in any quarter or in any year.

And in the first quarter, we exchanged -- we completed a transaction that was begun over a year ago, whereby we exchanged our Procter & Gamble stock for cash and for Duracell, and that accounts for the -- largely accounts for the large capital gain in the quarter. So those are the figures for the first quarter.

And then to illustrate what we're sort of all about here, I put up a second slide. And I started this slide in 1999. The reason being that at the end of 1998, we affected a large merger with General Re. And at that point, we sort of entered a different era. After 1998 merger with General Re, we had over 1 million 500-and-some thousand A equivalent shares out. And our shares -- up to that point, we'd increased the outstanding shares by more than 50% in over the 30-some years preceding that point. Since that time, as I note here, we've only increased the number of shares over the next 17 years. We've only increased the shares outstanding by 8.2%. So these figures represent a fairly unchanged share count since that point, whereas the share count had changed quite a bit before.

As you'll note, in terms of operations, I've told you that our goal at Berkshire is to increase the normalized earnings -- operating earnings every year. And I've said sometimes it will -- we hope will only be -- it will turn out to be only a little bit and sometimes we can get some fairly decent jumps, but that's the goal. Now earnings will not increase every year because there's such a thing as a business cycle. And in times of recession, we're going to earn less money, obviously, than in times when things are much better overall. And on top of that, we're heavily in an insurance business, and earnings there can be quite volatile because of catastrophes. And this chart shows you what's happened to the operating earnings since that time, again pointing out that shares outstanding have gone up very little during that period.

You'll notice in 2001 when we suffered significant insurance losses due to 9/11, we actually were in the red in terms of operating earnings. And you'll notice the figures are very irregular. But over time, by adding new subsidiaries, by further developing the businesses we have, by bolt-on acquisitions, by reinvestment of retained earnings, the earnings have moved up in a very irregular fashion quite substantially. I'd put in also the capital gains we've achieved through investments and derivatives, and they total some $32 billion after tax, close to $50 billion pretax. Those are not important in any given year, but those numbers can go all over the place.

The main advantage from my standpoint in that $32 billion is it gives us money to buy other businesses. What we really want to focus on, what we hope is that the bigger under operations 5 or 10 or 20 years from now grow substantially, partly because we retained earnings from operations, partly because our operations improve in their own profitability, partly because they make bolt-on acquisitions, partly because we have gains from securities which enable us to buy even more businesses. But we don't manage -- as you know, we don't manage to try to get any given number from quarter-to-quarter. We never make a forecast on earnings. We don't give out earnings guidance. We think it's silly. We do not have budgets at the parent company level. Most of our subsidiaries have budgets, but they don't submit them. They're not required to submit them to the headquarters. We just focus day after day, year after year, decade after decade, on trying to add earning power, sustainable and growing earnings power, to Berkshire.
So that's a quick summary. Now we'll move on to the questions. I just ask with the audience that you limit your question to one question. I think multiple questions have a way of sneaking in occasionally. But -- so

let's keep them to a single question. We'll start off with the journalist group on my right, and we'll start off with Carol Loomis.

Question and Answer

Carol Loomis

I'll make my very short, little speech about the fact that the journalists and the analysts, too, have given Charlie and Warren no hint of what they're going to ask. So they will be learning for the first time what that is going to be also. This question comes from Eli Moises [ph]: "In your 1987 letter to shareholders, you commented on the kind of companies Berkshire like to buy: Those that required only small amounts of capital. You said, "Because so little capital is required to run these businesses, they can grow while concurrently making almost all of their earnings available for deployment in new opportunities." Today, the company has changed its strategy. It now invests in companies that need tons of capital expenditures, are overregulated and earn lower returns on equity capital. Why did this happen?"

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, it's one of the problems of prosperity. The ideal business is one that takes no capital, but yet grows. And there are a few businesses like that, and we own some. But we are not able -- we'd love to find one that we could buy for $10 billion or $20 billion or $30 billion that was not capital intensive; and we may, but it's harder. And that does hurt us in terms of compounding earnings growth. Because, obviously, if you have a business that grows and gives you a lot of money every year and doesn't take -- it isn't required in its growth, you get a double-barrel effect from the earnings growth that occurs internally without the use of capital and then you get the capital it produces to go and buy other businesses. And See's Candy was a good example of that. I'd use that. Back when the newspaper business was good, our Buffalo newspaper, for example, was a good example of that. The Buffalo newspaper was making at one time $40 million a year and had no capital requirements. So we can take that whole $40 million and go into -- go buy something else with it. But capital -- increasing capital acts as an anchor on returns in many ways. And one of the ways is that it drives us into -- just in terms of availability, it drives us into businesses that are much more capital intensive. You just saw a slide, for example, on Berkshire Hathaway Energy where we just announced, just in the last couple of weeks, we announced a $3.6 billion investment coming up in wind generation. And we've pledged overall to have $30 billion in renewables. Anything that Berkshire Hathaway Energy does, anything that BNSF does, takes lots of money. We get decent returns on capital, but we don't get the extraordinary returns on capital that we've been able to get in some of the businesses we acquire that are not capital intensive. As I mentioned in the annual report, we have a few businesses that actually earn 100% a year on true invested capital. And clearly, that's a different sort of operation in something like Berkshire Hathaway Energy, which may earn 11% or 12% on capital, and that's a very decent return. But it's a different sort of animal than the business that's -- very low capital intensity. Charlie?

Charles Thomas Munger
Vice Chairman

Well, when our circumstances change, we changed our minds.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Slowly and reluctantly.

Charles Thomas Munger
Vice Chairman

In the early days, quite a few times, we bought a business that was still producing 100% per annum on what we paid for it and didn't require much reinvestment. If we've been able to continue doing that, we would have loved to do it. But when we couldn't, we went to Plan B. And Plan B is working pretty well, and in many ways I've gotten so I sort of prefer it. How about you, Warren?

Warren E. Buffett

Chairman of the Board and Chief Executive Officer

Yes, that's true. When something's forced on you, you might as well prefer it. Yes, the -- but it -- I mean, we knew that was going to happen. And the question is: Does it lead you from what was a sensational result to a satisfactory result? And we don't -- we're quite happy with the satisfactory result. The alternative would be to go back working with very tiny sums of money, and that really hasn't gotten a lot of serious discussion between Charlie and me. Okay. From the analyst group, Jonathan Brandt?

Jonathan Brandt

Warren, thanks for having me again.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Thanks for coming.

Jonathan Brandt

My first question is about Precision Castparts. Besides your confidence in its talented CEO, Mark Donegan, what in particular do you like about their business that gave you the confidence to pay its historically high multiple? Are there ways Precision can be even more successful as essentially a private company? For instance, are there long-term investments to support client programs or acquisitions that Precision can make now that they couldn't realistically have done as a publicly traded entity?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. We completed the acquisition of Precision Castparts at the end of January this year. We agreed to -- we made the deal last August. And you covered the most important asset in your question. Mark Donegan, who runs Precision Castparts, is an extraordinary manager. I mean, we've seen very -- Charlie and I have seen a lot of managers over the years, and I would almost rank Mark as one of a kind. I mean, he's doing an extremely important work in terms of making -- primarily making aircraft parts. I would say that there are certainly no disadvantages then to be working as a -- and for that company to be a subsidiary of Berkshire and not be a public company. And I think he would say, -- and I think Charlie and I would agree with him, that over time, there could be some significant advantages. For one thing, he can spend 100% of his time now on figuring out better things to do with aircraft engines. And it was always his first love to be thinking about that, and he did spend most of his time, but he also had to spend some time explaining quarterly earnings to analysts and perhaps negotiating bank lines and that sort of thing. So his time, like all of our managers, can be spent exactly on what makes the most sense to them and their business. Mark does not have to come, ever, to Omaha to put on some show for me in terms of justifying $1 billion acquisition or a planned investment. He wastes -- he doesn't have to waste his time on anything that isn't productive. And running a public company, you do waste your time on quite a bit of stuff that isn't productive. So I would say we've taken the main asset of Precision Cast and made it -- made him, in this case, even more valuable to the company. In terms of acquisitions, Precision has always made a number them. But as being part of Berkshire, there's really no limitations on what can be done. So there, again, his canvas has been broadened in large with the acquisition by Berkshire. I see no downside whatsoever. If he needs capital, he -- I've got an 800 number. And it wasn't paying much of a dividend before, but it doesn't have to pay any dividend now. And Precision Cast will do better under Berkshire than it would have independently, although it would have done very, very well independently. Charlie?

Charles Thomas Munger
Vice Chairman

Yes. Well, in the early days, we used to make wiseass remarks. And Warren would say, "We buy a business that an idiot could manage because sooner or later an idiot will." And we did buy some businesses like that in the early days and they were widely available. Of course, we'd prefer to do that. But the world has gotten harder, and we had to learn new and more powerful ways of operating. A business like Precision Castparts requires a very superior management that's going to stay superior for a long time. And we gradually have done more and more and more of that. And it's simply amazing how well it works. And I think to some extent, we've gotten almost as good at picking the superior managers as we were in the old days of picking the good no-brainer businesses.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. We would love to find -- we won't be able to find them because they're very rare birds, but we would love to find another 3 or 4 of a similar type to Precision Castparts where they forever are going to be producing something that -- where quality is enormously important, where the customers depend very heavily on them, when there's contracts that extend over many years and where people don't simply just take an old bid in order to get this gadget of one sort or another. It's very important that you have somebody there that has enormous skill running the business. And their reputation among aircraft manufacturers, engine manufacturers is absolutely unparalleled. Okay, now we go to the audience and we go up to Section 1. And if you'll give your name and where you're from, I'd appreciate it.

Unknown Attendee

My name is Gaspar [ph]. I'm Spanish and I come from London. I admire you both in many ways, but I would like to know that when looking backwards, what will you have done differently in life in your search for happiness?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I'm 85 and I can't imagine anybody any happier than I am. So by accident or whatever, I still -- I mean, I'm sitting here eating exactly what I like to eat, doing in life exactly what I love to do with people I love. So it really doesn't get any better than that. I did decide fairly early in life that my favorite employer was myself. And that -- and I think that presented -- I've managed to avoid really aggravation of almost any sort. Really, if you or those around you that you love have health problems or something, I mean, that is a real tragedy and there's not much you can do about it but accept it. But Charlie and I have really been blessed. I mean, here Charlie is 92, I'm 85, and he's doing every day something that he finds fascinating. He -- I think he probably finds what he is doing at 92 as interesting, as fascinating, and as rewarding, as socially productive as any period you can pick in his life. And so we've been extraordinarily lucky. We've been -- we're lucky as a partnership. It's more fun doing things as a partnership. So I've got no complaints, we very surely shouldn't have any kind of complaint. And I would say if you're talking about business life, I don't think I would have started with a textile company. Charlie?

Charles Thomas Munger
Vice Chairman

Well, looking back, I don't regret that I didn't make more money or become better known or any of those things. I do regret that I didn't wise up as fast as I could have. And there's a blessing in that, too. Now at 92, I still have a lot of ignorance left to work on.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Becky Quick.

Becky Quick

This question comes from Solomon Ackermann [ph], who's in Frankfurt, Germany. He wants to know why Berkshire has significantly sold down their holdings in Munich Re, which is the world's biggest reinsurance company based in Germany, while sticking with the reinsurance operations within Berkshire, like Berkshire Hathaway Reinsurance and General Re. Would you reduce exposure to Berkshire Hathaway Reinsurance and General Re if they were listed companies? And he's hoping that this can bring out some of your insights as to what's happening in the reinsurance business right now.

Warren E. Buffett

Chairman of the Board and Chief Executive Officer

Yes. We -- I said in the annual report that I thought it was very likely that the reinsurance business would not be as good in the next 10 years as it has been in the last 10 years. I may be wrong on that. But that's just a judgment based on seeing the competitive dynamics of the reinsurance business now versus 10 or 20 years ago. Both Munich -- we sold our entire holdings, which were substantial of Munich Re and Swiss Re. We owned about 3% of Swiss Re and we owned more than 10% of Munich Re. And last year, we sold those 2 holdings. They're fine companies, they're well-managed companies. I like the people that run them. I think their business, the business of the reinsurance companies generally, is less attractive for the next 10 years than it has been for the last 10 years, in part that's because of what's happened to interest rates. A significant portion of what you earn in insurance comes from investment of the float. And both of those companies, and for that matter almost all of the reinsurance industry, is somewhat more restricted in what they can do with their float because they don't have as huge capital cushion that Berkshire has, and also because they don't have this great amount of unrelated earning power that Berkshire has. Berkshire has more leeway in what it can do simply because it does have capital that's many times what its competitors have and it also has earning power coming from a whole variety of unrelated areas -- unrelated to insurance. So it was not a negative judgment in any way on those 2 companies. It was not a negative judgment on their managements. But it was a -- at least a mildly negative judgment on the reinsurance business. Now we have the ability at Berkshire to actually rearrange, to a degree. We are certainly affected by industry factors, but we have more flexibility in modifying business models, and we've operated that way over the years in insurance generally and particularly in reinsurance. So a Munich, a Swiss, all the major reinsurance companies except for us, is pretty well tied to a given type of business model. They don't really have as many options in terms of where capital gets deployed because they have to continue down the present path. And I think they'll do fine, but I don't think they will do as fine in the next 10 years as they have in the last 10. And I think if we played the same game as we were playing the last 10, we would do as well. But we do have considerably more flexibility in terms of how we conduct all of our insurance operations. But particularly in reinsurance, we have an extra string to our bow that the rest of the industry doesn't have. The amount of capital that's come in to the reinsurance business -- it is no fun running a traditional reinsurance company and having money come in, particularly in Europe, and have money come in and look around you for investment choices and find out that the great many of the things that you were buying a few years ago now have negative yields at that -- the whole idea of float is it's supposed to be invested at a positive rate, a fairly substantial positive rate. And that game has been over for a while and it looks like it'll be at least unattractive, if not terrible, for a considerable period in the future. Charlie?

Charles Thomas Munger
Vice Chairman

There's a lot of new capacity in reinsurance, and there's a lot of very heavy competition. A lot of people from finance have come over into reinsurance and all the old competitors remain, too. That's different from Precision Castparts where most of the customers will be totally crazy to hire some other supplier, because Precision Castparts is so much more reliable and so much better. Of course, we like the place with more competitive advantage. We're learning.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

To put it in terms of Economics 101, basically, in reinsurance, supply is going up and demand has not gone up. And some of the supply is driven by investment managers who would like to establish something offshore where they don't have to pay taxes. And reinsurance is sort of the easiest beard question -- what I call beard behind which to actually engage in money management in a friendly tax jurisdiction. And you can set up a reinsurance operation with very few people by taking large chunks of what brokers may offer. It's not the greatest reinsurance in the world, and a couple of the operations that have done have proven that that's statement to be right, but nevertheless, it isn't very, very easy way to have a disguised investment operation in a friendly tax jurisdiction. But that becomes supply in the reinsurance field. And supply has gone up relative to demand, and it looks to me like that will continue to be the case.

And couple that with poor returns on float, and it's not as good a business as it was. Now we'll talk to an insurance man about it. Cliff Gallant?

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

In terms of growth and profitability, GEICO really got whipped by Progressive Direct over the last year. In 2015, Progressive Direct's auto business grew policy count by 9.1%, GEICO only 5.4%. And in terms of profitability, the combined ratio at Progressive was a 95:1 and GEICO was 98:0. Is this evidence that Progressive's investments in technology like Snapshot investments that GEICO has spurned, is it making a time -- making a difference in a time of difficult loss trends? Why is GEICO suddenly losing to Progressive Direct?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Well, I will say this, over the last -- I forget what year it was, we passed Progressive and what year it was we passed Allstate. But GEICO's growth rate in the first quarter was not as high as in the past couple first quarters, but it was quite satisfactory. Now the first quarter is, by far, the best quarter for growth. But last year, both frequency, how often people had accidents, and severity, which is the cost per accident, in other words just how much those accidents cost you, both of those went up quite suddenly and substantially. And Progressive's figure showed that they were hit by that less than Allstate and GEICO and some others. But I don't think you'll see necessarily those same trends this year. The -- it's an interesting thing, last year for the first time in I don't know how many years, the number of deaths in auto accidents per 100 million miles went up. Now if you go back to the mid-1930s, there were almost 15 people killed per 100 million miles driven. They got down to just slightly over 1, from 15 to 1. You had almost as many -- you had roughly as many people killed in auto accidents in mid-1930s, about 32,000, 33,000 a year as we had last year or the year before when people drove almost 15x as many miles. Cars have gotten far, far, far safer. And it's a good thing because if we have the same rate of deaths from auto accidents as we had in the '30s relative to miles driven, we would have had over 0.5 million people die last year from auto accidents instead of a figure closer to 40,000. But last year, for the first time, there was more driving and I think there was more distracted driving. So you really had this uptick in frequency and, more important, in severity. GEICO has adjusted its rates. As I mentioned, my own prediction would be that the underwriting margins at GEICO will be better this year than last year. Although you never know when catastrophes are coming along. March and April have had a lot of cat activity. I made a bet a long time ago on, another one, on the GEICO model versus the Progressive model. And as I say, they were significantly ahead of us in volume a few years back, and we passed them and we passed Allstate. And as I put in the annual report, I hope on my 100th birthday that the GEICO people announce to me that they passed State Farm. But I have to do my share on that, too, by getting to 100. So we'll see what happens on that particular one. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I don't think it's tragedy that some competitor had a little better ratio in one period. GEICO's quadrupled its market share since we bought all of it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Quintupled.

Charles Thomas Munger
Vice Chairman

Yes, quintupled. All right. I don't think we should worry about the fact that somebody else had a good quarter.

Warren E. Buffett

Chairman of the Board and Chief Executive Officer

Yes. I think it's far more sure that GEICO will pass State Farm someday than I'll make it to 100, I'll put it that way. Okay, we'll go to the shareholder from Station 2.

Norman Rentrop

From the Midwest of Europe, I'm Norman Rentrop from Bonn, Germany, a shareholder since 1992. My question is about the future of salesmanship in our companies. Warren, you have always demonstrated a heart for direct selling. When we met you in the midst of a tornado warning in the barbershop, you immediately offered to write insurance for us.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

That's true. They were all huddled down there in the barbershop, and there wasn't going to be any tornado. So I told them if they give me $1, I'd -- they can go upstairs and if anything happen to them, I'd pay them, I forget, $1 million or something of that sort.

Norman Rentrop

Now we see with the rise of amazon.com and others a shift from push marketing to pull marketing, from millions of catalogs having been sent out in the past to now consumers searching on what they are looking for. What is your take on how this shift from push to pull marketing will affect our companies?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, Norman, the development you referred to is huge -- I mean, really huge. And it isn't just Amazon, but Amazon is a huge part of it. And the -- what they've accomplished in a fairly short period of time and continued to accomplish is remarkable, the number of satisfied customers they have developed. And we don't make any decision involving even the manufacturing of goods, the retailing, whatever it is without thinking long and hard about what the world will look like in 5 or 10 or 20 years with that powerful trend, really hugely powerful trend, that you just described. So we're not -- we don't look at that as something where we're going to try and beat them at their own game. They're better than we are at that. And so Charlie and I are not going to out-Bezos Bezos by a long shot. But we are going to think about that. It does not worry us. Obviously, with the Precision Cast -- it doesn't worry us in terms of the overwhelming majority of our businesses, but it is a huge economic trend that 20 years ago was not on anybody's radar screen, and lately has been on everybody's radar screen. And many of them had not -- and including us in a few areas, had not figured the way to either participate in it or to counter it. The GEICO is a good example of a company that in an industry that had to adjust to change, and some people made the change better than others. We were slow on the Internet. The phone had worked so well for us. This traditional advertising and the phone worked so well that there's always a resistance to think about new possibilities. When we saw what was happening on the Internet, we jumped in with both feet, in mobile and whatever. But there are capital -- the nature of capitalism is somebody's always trying to figure -- if you've got some good business, they're always trying to figure out how to take it away from you and improve on it. And the effect -- I would say just with Amazon but others that are playing the same game, the effect on industry, the full effect is far from having been seen. I mean, it is a big, big force and it will -- already has disrupted plenty of people and it will disrupt more. I think Berkshire is quite well situated. For one thing, one big advantage we have is we didn't ever see ourselves starting out on one industry. I mean, we didn't go into -- we went into department stores, but we didn't think of ourselves as department store guys or we didn't think of ourselves as steel guys or tire guys or anything of that sort. So we've thought of ourselves as having capital to allocate. If you start within a given industry focus and you spend your whole time working on a way to make a better tire or whatever it may be, I think it's hard to have the flexibility of mind that you have if you just think you have a large -- hopefully, large and growing pile of capital and trying to figure out what is the next best -- best next move that you can make with that capital. And I think we do have a real advantage that way. But I think the fellow that -- I think Amazon's got a real advantage, too, and this intense focus on having hundreds of millions of generally very happy customers getting very quick delivery is something that they want to get promptly and they want to shop the way they shop. And if I owned a bunch of shopping malls or something like that, I would be thinking plenty hard about what they might look like 10 or 20 years from now. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I would say that we failed so thoroughly in retailing when we were young that we pretty well avoided the worst troubles when we were old. I think net Berkshire has been helped by the Internet. The help at GEICO has been enormous, and it's contributed greatly to the huge increase in market share. And our biggest retailers are so strong that they will be among the last people to have troubles from Amazon.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I didn't get that dollar from you, Norman, actually, after I gave you that wonderful advice. Andrew [ph]?

Unknown Attendee

Warren, great to see you today. I've got a lot of questions on this particular topic, and this question is a particularly pointed one. Warren, for the last several years at this meeting, you've been asked about the negative health effects of Coca-Cola products and you've done a masterful job dodging the question by telling us how much Coke you drink personally; statistically, you may be the exception. According to a peer-reviewed study by Tufts University, soda and sugary drinks may lead to 184,000 deaths among adults every year. The study found that sugar-sweetened beverages contributed to 133,000 deaths from diabetes, 45,000 deaths from cardiovascular disease, 6,450 deaths from cancer. Another shareholder wrote in about Coke noted that you declined to invest in the cigarette business on ethical grounds despite one saying, "It was a perfect business because it costs $0.01 to make, sell it for $1. It's addictive, and there's fantastic brand loyalty." Again, removing your own beverage consumption from the equation, please explain directly why we, Berkshire Hathaway shareholders, should be proud to own Coke.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. I think people confuse the amount of calories consumed. I mean, I happen to elect to consume about 700 calories a day from Coca-Cola. So I'm about 1/4 Coca-Cola, roughly. But not sure which 1/4 and I'm not sure we want to pursue the question. The -- but I think if we decide that sugar generally is something that the human race shouldn't have -- I think the average person consumes something like 150 pounds of dry weight sugar a year, or 125 pounds. I mean, what's in Coca-Cola largely are more that the calories come from sugar. I elect to get my 2,600 or 2,700 calories a day from things that make me feel good when I eat them. And that's been my sole test. It wasn't a test that my mother necessarily thought was great or my grandfather. But there are over 1.9 billion 8-ounce servings of some Coca-Cola drink. Now they have enormous range of products. I mean, they have a few hundred called Coke, Diet Coke, Coke Zero and that sort of thing. They have literally thousands of products. 1.9 billion, that's 693.5 billion 8-ounce servings a year, except it's a leap year. That's almost 100 8-ounce servings per capita for 7 billion people in the world every year. And that's been going on since 1886. And I would find quite spurious the fact that somebody says if you're eating 3,500 or so calories a day and you're consuming 2,700 or 2,800, and some of the 3,500 is Coca-Cola, that will blame [ph] any particular obesity-related illnesses on the Coca-Cola you drink. You have the choice of consuming more than you use. I mean -- and I make a choice to get 700 calories from this. I like fudge a lot, peanut brittle. And I'm a very, very, very happy guy. And I don't know -- I think -- and I'm serious about this. I think if you are happy every day, it may be hard to measure, but I think you're going to live longer as well. So there may be a compensating factor. And I really wish I'd had a twin and that twin had eaten broccoli his entire life, and we both consume the same number of calories. I know I would have been happier. And I think the odds are fairly good I would have lived longer. I think Coca-Cola is a marvelous product. I mean, if you consume 3,500 or 4,000 calories a day and live a normal life in terms of your metabolism, something's going to go wrong with your body at some point. But if you keep -- I think if you balance out the calories so that you don't become obese, I'm not seeing evidence that convinces me that I'll make it -- it'll be more like I reach 100 if I suddenly switch to water and broccoli. But incidentally, a friend of mine, Arjay Miller, a remarkable man born about

100 miles from here, west, 8th child, near Shelby, Nebraska. He says Shelby's population was 596, and it never changed, because every time some girl had a baby, a guy had to leave town. It was very stable. But Arjay went out to be President of Ford Motor Company from this farm near Shelby, and he had his 100th birthday on March 4 of this year. So I went out to see Arjay for his birthday on March 4th, and Arjay told me that there were 10,000 men in the United States that had lived to be 100 or greater, and there were 45,000 women that were 100 or greater. So I came back and I checked that on the Internet. I went to those census figures, and sure enough, that is the ratio. There's 10,000 men over 100, roughly, and 45,000 women. So if you really want to improve your longevity prospects, I mean, a guy in my position, you have a sex change. You're 4.5x more likely to get to be 100. That sounds like one of those studies that people put out. It's just a matter of fact, folks. I think I'll have Charlie go first, though, on that one. Charlie, do you have any comments?

Charles Thomas Munger
Vice Chairman

Well, I like peanut brittle better than -- but I drink a lot of Diet Coke. I think the people who ask questions like that one always make one ghastly error that's really inexcusable: They measure the detriment without considering the advantages. Well, that's really stupid. That's like saying we should give up air travel through airlines because 100 people die a year in air crashes or something. That would be crazy. The benefit is worth the risk. And if every person has to have about 8 or 10 glasses of water every day to stay alive and it's pretty cheap and sensible and improves life to add a little extra flavor to your water and a little stimulation and a little calories if you want to eat that way, there are huge benefits to humanity in that. And it's worth having some disadvantage. We ought to have almost a law -- and I'm getting where I'm sounding like Donald Trump -- where these people shouldn't be allowed to cite the defects without citing the advantage. It's immature and stupid.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Gregg Warren.

Greggory Warren
Morningstar Inc., Research Division

Warren, with both coal-fired and natural gas plants continuing to generate around 2/3 of the nation's electricity and renewable's accounting for less than 10%, there remains plenty of room for growth. At this point, Berkshire Energy, which has invested heavily in the segment, is one of the nation's largest producers of both wind and solar power, and yet still only generates around 1/3 of its overall capacity from renewables. As you noted earlier, MidAmerican recently committed another $3.6 billion to wind production, which should lift the amount of electricity it generates from wind to 85% by 2020. You've also had the company overall pledging to have around $30 billion of renewables longer term. The recent renewal of both the wind and solar energy tax credits has been this kind of invested and more economically viable and should clear the path for future investments.

Eliminating coal-fired plants looks to be the main priority, but natural gas-fired plants are also fossil fuel-driven and are exposed to the vagaries of energy prices. Is the end game here for Berkshire Energy to get 100% of its generation capacity converted over renewables and what are the risks and rewards associated with that effort? After all, the company operates in a highly regulated industry, where rates are driven by an effort to customer costs low while still providing the adequate returns for the utilities.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I think implicit in what you say is that we do -- any decision we make, including the one we just showed you on the -- during the movie, to, well, any decision about new generation, changes in generation, has to go through a what's usually called a public utility commission, and they have different names in a few states. But the utility industry is overwhelmingly regulated at the state level, and we cannot make changes that are not approved by the public utility commission. We've had more problems, for example, in bringing in renewables in our western utility, PacifiCorp, because it's, in effect, regulated by 6 states -- I believe in 6 states. And they don't necessarily agree on how the costs and benefits should be divided if we put in a bunch of renewables, and we have to follow their instructions. Iowa has just been marvelous about encouraging, I mean, at every level, I mean, that consumer groups, the governor, you name it. They have seen the benefits. And in Iowa it's literally true that we have one major competitor called Alliant, and they have not either been able -- I don't know the reasons, but they have not pursued renewables the way we have, so our rates are considerably lower than theirs. And if you look at their budget projections, although they are substantially higher rates than we have now, they will need a rate increase within a year or so. And with our latest expansion, we have said that we will not need a rate increase until 2029 at the earliest, so that's 13 years off. So there have been great benefits if you have regulation that works for you on that. But it is a determination that is made at the state level. Now the federal government has encouraged in a major way the development of renewables by this production tax credit, which currently amounts to about $0.023 per kilowatt hour. We would not have the renewable generation that we have if it hadn't been for the fact that, that building of those projects is subsidized by the federal government, because the benefits of reducing solar emissions are -- or carbon emissions are worldwide and therefore it's deemed proper that the citizenry as a whole should participate in subsidizing the cost of reducing those emissions. And that is encouraged. In fact it's allowed. Things like that have happened in Iowa as well. But the degree to which the renewables replace, primarily coal -- although there's plenty of emissions connected with natural gas, if you trace it all the way through -- will depend on governmental policy. And I think so far, I think it's been quite sensible in encouraging, having the cost borne by society as a whole in terms of reduced tax revenues and having the benefits, which is less CO2 into the atmosphere. They also, broadly -- they're not just limited to the people of Iowa when we built that, they -- that's a benefit that accrues to the world. So I think you'll see continued change, and it will vary by jurisdiction. And we would hope -- we've got the capital. We've got lots of taxes, federal taxes paid. And our consolidated returns we're in a particularly advantageous position to take advantage of massive investments that companies with limited tax appetites couldn't handle. But I think you'll see us be a very big player. But governmental policy is going to be the major driver. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, I think we're doing way more than our share of shifting to renewable energy, and we're charging way lower energy prices to our utility customers than other people. If the whole rest of the world were behaving the way we are, we'd be a much better world. I will say this about the subject, though, and that is that I think that the people who worry about climate change as the major trouble on Earth, don't have my view. I think that we -- I like all this shifting to renewables, but I have a different reason. I want to conserve the hydrocarbons, because eventually, I think, we're going to use every drop even on the more chemical feedstocks. And so, I'm in their camp, but I've got a different reason.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

One thing you'll find -- might find kind of interesting, Nebraska has not done much with wind power. And well, maybe 3 miles or 2 miles from where we're sitting, right across the river, people are buying their electricity cheaper in Council Bluffs right across the river than they are in Omaha. And yet Omaha -- Nebraska is entirely a public power state. So there's no stockholders who have to have any earnings, the bonds are issued on a tax-exempt basis and yet the electricity is considerably cheaper right across the river. And the wind blowing doesn't just start at the Missouri River. I mean, it comes across Nebraska, and that wind could be captured. And so far, it really hasn't. And the real irony is, that because our electricity is so much cheaper in Iowa you have these massive server farms that people like Google want to become a tech haven for these operations that just gobble up electricity. And Iowa has gotten plant after plant after plant and job after job after job and increased property tax -- I mean, gotten more property tax revenues. And that's being done -- the Google server is probably 7 or 8 miles from here, and it's located in Iowa because we have cheap wind-generated electricity. And it's creating jobs. It's fascinating. But Nebraska has prided itself on public power. It was originated back, I believe, in the '30s when George Norris was a very powerful senator here, and it's been a source of pride. But lately, it's been a source of cost, too. Okay, shareholder Section 3.

Adam B. Bergman
Sterling Capital Management LLC

My name is Adam Bergman. I'm with Sterling Capital in Virginia Beach. In your 2008 shareholder letter, you said, "Derivatives are dangerous. They have made it almost impossible for investors to understand and analyze our largest commercial banks and investment banks." So my question for you is how do you analyze and value companies like Bank of America Merrill Lynch and other commercial banks that Berkshire has investments in relative to their significant derivative exposures?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, derivatives do complicate the problem very dramatically. Now they are moving away to being collateralized, which helps. But there's no question that if you ask me to describe the derivative position of the BofA, for example, I would know that they have done a conscientious job and worked hard at properly evaluating. But the great danger in derivatives is if there's a discontinuity. If there's not discontinuity, you probably don't have much of a problem, assuming they get mark-to-market, collateralized and so on. But the system stops for a while -- the system stopped after 9/11 for 3 or 4 days. It stopped at the time of World War I, they closed the New York Stock Exchange for many months. They debated closing the stock exchange very seriously the day after October 19, 1987, and it was -- there were a lot of people that would've wanted to close it. But on that Tuesday morning, it looked like it was about to stop, but it continued. But if you have a major cyber, nuclear, chemical, biological attack on the country, which will certainly happen at some point, if you have a major discontinuity, then you'll have a lot of problems, a lot of problems. But you will also -- when things reopen, you will find there can be enormous gaps in things that you thought were fully protected, like collateral and that sort of thing, or netting arrangements and that type of thing. So I regard very large derivative positions are dangerous. We inherited a modest size position. And generating, in a benign market, we lost about $400 million, just in trying to unwind it, with no pressure on us whatsoever. So I do think it continues to be a danger to the system.

Charles Thomas Munger
Vice Chairman

By the way, the accountants blessed that big derivative position has been worth a lot of money. They were only off, what, many hundreds of millions?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Well, Charlie found one position when he was on the audit committee at Salomon. I think it was mismarked by $20 million. And it -- I actually, by happenstance, I do know that one incredible mismarked position doesn't affect any of our operations, but it almost staggers the mind to know the way that position is marked, and you can only come to the conclusion that some trader had somehow influenced whoever did mark it or marked it himself, heaven forbid, probably just influencing someone. Or they didn't know it -- and some of these things get so complicated, they are very hard to evaluate. That's the kind that have the most profit in them usually, so they were quite enthusiastic about those when we were at Salomon. They can be extraordinarily hard to mark. And I can say I know one that's so mismarked it would blow your mind. And the auditors, I don't think are necessarily capable of holding that behavior in check. It's very interesting because now there's really 4 big auditing firms. And obviously they're auditing companies where there's a derivative position, and they're auditing Company A that's on one side of the transaction, and they're auditing Company B that's on the other side of the transaction, in some cases it's the same auditor. And I will guarantee you that there were many times when the marks on the -- what they're attesting to are significantly different. Which would be an interesting exercise to pursue in terms of checking those numbers out. Derivatives are still dangerous in large quantities, and we have -- we would not do them on a collateralized basis because if there was a discontinuity, I don't know exactly where we'll end up, and I'm never going to get us into position where we could be -- have money demanded of us and not be able to fulfill it with ease and with me sleeping well. So we won't engage in that. We've got some in runoff. And so far, we've made money, and had the use of money for a decade or more. It's been very attractive for us, but that does not entice me at all into doing any derivative transactions that would involve collateral when collateral is not required. It's still a potential time bomb in the system. Anything with discontinuities -- and basically that means closing up and stopping trading markets from functioning, anything where discontinuities can exist can be real poison in the markets. Kuwait, some years ago, went to a very the delayed system on settlement of stock purchases. So they didn't have to settle out for 6 months or thereabouts, and it caused all kinds of problems because you've got an IOU from somebody for 6 months, and if you got gazillions of those, a lot of trouble can ensue. So I agree with your general caution. I'm not in the least troubled by our Bank of America investment, nor our Wells Fargo. We added the Wells Fargo. And our Bank of America position right now is a preferred stock, but we're very likely to exercise the warrants on that. On the other hand, there are a great of number of banks in the world. If you to take the 50 largest banks in the world, we wouldn't even think about probably 45 of them. Would you say that, Charlie?

Charles Thomas Munger
Vice Chairman

Well, we're in the awkward position, right? We could probably make, what, $20 billion out of derivatives in just those few contracts that you and I did years ago. All that said, we're different from the banks, who would really prefer it if those derivatives have been illegal for us to buy. It would've been better for our country.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Carol?

Carol Loomis

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This question relates to something that Warren briefly said earlier today. The question comes from Lynn Palmer [ph] who is just finishing her freshman year at a Houston, Texas, high school. "My question," she says, "concerns the float generated by Berkshire's insurance companies. In Mr. Buffett's 2015 annual letter, he said that the large amount of float that Berkshire possesses allows the company to significantly increase its investment income. But what happens when interest rates decline? If the U.S. were to implement negative interest rates in the same way that the Eurozone and Japan had done, how would Berkshire be affected?"

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, well, some of our float actually exists in Europe and where we have the problem of negative interest rates on very high grade and short-term and maybe even medium-term bonds. And obviously, anything that reduces the value of having money is going to affect Berkshire because we're always going to have a lot of money. We -- because we have so much capital and so many sources of earning power, we have the ability, quite properly, to use our float in -- to a certain degree, in ways that most insurance companies can't think about. So we can find things to do, but sometimes we get -- we've got $50-odd billion of short-term government securities now, and we're going to get another $8.3 billion, in all likelihood, early in June when our client [ph] prefer, so we'll be back over $60 billion again very soon. And so we have got $60 million out and that's, I would say, 0.25% -- well, it was really 0.25%, and minus 0.25% is not that great. I mean, it's almost as painful to have $60 million out at 0.25% as to have it out at a negative rate. Float is not worth as much to insurance companies now as it was 10 years ago or 15 years ago. And that's true at Berkshire. I think it's worth considerably more to us than it is to a typical insurance company, because I think we have a broader range of options as to what to do with it. But there's no question about it that having a lot of money around now is not just a problem for insurance companies, it's a problem for retirees, it's a problem for anybody that's stuck with fixed dollar investments and finds that their income now is a pittance or, in Europe, perhaps a negative rate, and that was not something in their calculation at all 15 years ago. We love the idea, however, of increasing our float. I mean, that money has been very useful to us over time. It's useful to us today, even under present conditions, and it's likely they'd be very useful to us in the future. It's a -- it's shown us a liability, but it's actually a huge asset. Charlie?

Charles Thomas Munger
Vice Chairman

I've got nothing to add.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, he's now at full swing. Jonathan?

Jonathan Brandt

[Technical Difficulty]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

We can't hear you.

Jonathan Brandt

Testing. Yes. The railroad industry seems right now to be suffering from exposure to some of the weakest parts of the economy with volume declines of varying magnitudes in coal, oil, sand and metals. Even Intermodal, usually a steady source of growth has been relatively weak of late. How much of the weakness is cyclical? How much is secular? In the last 15 months, the other western railroads market capitalization is down by 35% as projections of future growth have come down. Is your estimate of BNSF's intrinsic value down by a material amount during the same period? Or is your view of the value of BNSF's irreplaceable network unaffected by these short-term wiggles?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I mean, certainly, the decline in coal, which is very important commodities about 20% of revenues, that's secular. Now there's other factors that may cause the line of decline to jiggle around. We had a very mild winter, and we went into the winter with utilities carrying unusual amounts of coal. And ironically, part of the reason was that -- for that was that our service the year before had been bad, and they had gotten low on coal, so then they compensated by bringing in more than they needed just to catch up. And because the weather was mild, electricity use was poor in the wintertime. And so they continue, at this point, to have considerably more coal on hand than they would like. So they are not only trying to under-order what they will be using, and that has a little effect. But the decline in coal, for sure, is secular. And at 20% of revenues, that's a significant factor. But -- and it's true that the market generally got very enthused about railroad stocks 1 year or 2 ago, so they sold up a lot. And now that people are saying that car-loadings are down and earnings are down in some places, that equity valuations have come down. We don't -- we love the fact that we own BNSF. We think we bought it at an attractive price. We'd love to be able to buy a second thing exactly like it at that price. We'd do it a second. We'd even pay a little bit more probably. But we don't mark up and down our wholly-owned businesses based on stock market valuations. Obviously, stock market valuations are some factor in our thinking. But we are not marketing our wholly owned businesses to market because we're going to hold them forever, and we regard the BNSF as a very good business to own forever. But it will lose coal volume. And they lose in other areas, but it will gain in other areas. It's a terrific and valuable asset, and it will earn a lot of money this year, but it won't add as much money as earned last year. Charlie?

Charles Thomas Munger
Vice Chairman

I've got nothing to add.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Station 4.

Unknown Attendee

This is Cora [ph] and Dan Chen [ph] from Talgar [ph] Investments at Los Angeles. This annual meeting reminds me of the magical world of Hogwarts of Harry Potter. This arena is our Hogwarts. Warren, you are our headmaster and professor, Dumbledore.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I haven't read Harry Potter, but I'll take it as a compliment.

Unknown Attendee

Charlie's our Headmaster Snape, direct and full of integrity. The magic of long-term concentrated value investing is real. Yet, similar to Harry Potter, the rest of the world doesn't believe we exist. Your letter to me has changed my life, and your Secret Millionaires Club has changed my children's life. They go to class chatting about investing. My question is for my children watching at home today and children in the audience: How should they look at stocks when every day in the media they see companies that there will be a time in their life go IPO, they're dilutive and they see a lot of very short-term spin, the cycle is getting shorter and shorter. How should they view stocks? And what's your message for them? Finally, Cora and I would love to thank you in person and shake your hand personally today. I repeat what I said last year. Thank you for putting -- setting the seeds for my generation to sit in the shade, and for my children's generation to sit in the shade with the Secret Millionaires Club. I truly walk amongst giants. Thank you.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Would you mind repeating the whole thing? The Secret Millionaires Club, we want that give credit to Andy Heyward on that. I think it has helped. I know it's helped thousands and thousands of children. And Andy -- it was Andy's idea. And it grows in strength then in having young children learn good lessons in terms of handling money and making friendships and just generally behaving better citizens. It's a great objective and Andy makes it easy for them to do. So I -- on his behalf, I accept your comments. You don't have to really worry about what's going on in IPOs or people making money. People win lotteries every day, but there's no reason -- they have that affect, you should be jealous about it. I mean, if they want to do mathematically unsound things and one of them occasionally gets lucky and put the one person on television and the million that contributed the winnings with the big slice taken out for the state, don't get on there. It's nothing to worry about. Just all you have to do is figure out what makes sense and you don't -- and you look at buying, when you buy a stock, you'll get yourself in the mental frame of mind that you're buying a business. And if you don't look at a quote on it for 5 years, that's fine. You don't get a quote on your farm every day or every week or every month, you don't get it on your apartment house, if you don't want it. If you own a McDonald's franchise, you don't get a quote every day. You want to look at your stocks as businesses and think about their performance as businesses, think about what you pay for them as you would think about buying a business, and let the rest of the world go its own way. You don't want to get into a stupid game just because of its available. And I'm going to say a bit more about that close to the break. But -- with that, I'll turn it over to Charlie.

Charles Thomas Munger
Vice Chairman

Yes, I think that your children are right to look for people they can trust in dealing with stocks and bonds. Unfortunately, more than half the time, they will fail in the conventional answer. So they really have to -- they have a hard problem. If you just listen to your elders, they'll lie to you and me and spread a lot of folly. But they really have an easy problem, in the sense that American businesses are always going to do fine over time. So the only way that they can...

Charles Thomas Munger
Vice Chairman

But not the average client of a stockbroker.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, we'll get to that later. The stockbroker will do fine.

Charles Thomas Munger
Vice Chairman

Yes, that's true.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. But they don't have to do that, and we can talk -- well, I'd rather I address that just a little later. But just -- you don't want to worry -- you don't want to be -- a lot of problems, Charlie would say, are caused by envy. You don't want to get envious of somebody who's won a lottery or bought an IPO that went up. You have to figure out what makes sense and follow your own course. But -- Becky?

Becky Quick

This question comes from a shareholder named Lisa King Lee [ph] in Singapore, and this has to do with NV Energy's issue with solar energy in Nevada. "Can the chairmen help us environmentally conscious shareholders understand why NV Energy has lobbied for new rules in Nevada that make it prohibitive for households to use solar energy? Is there a good reason that we haven't yet heard about? And can the Chairman or Vice Chairman share their views on whether there's a need to implement an environmental, social and governance policy on Berkshire investments going forward? I understand that Berkshire Hathaway typically lets the underlying operating companies and CEOs manage their own policies autonomously, but should Berkshire's board influence better environmental protection policies going forward?"

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, the public utility and the pricing policy as everything else, in Nevada as well as other places, are determined by a public utility commission. So there are, I believe, 3 commissioners that decide what's proper. The situation in Nevada is that, in terms of rooftop power, was that for the last few years, if you had a solar project on your roof, you could sell back excess power you generated to the grid at a price that was far, far, far above what we as a utility could buy it for elsewhere. So you could sell it back, say, at roughly $0.10 a kilowatt hour. And about 17,000 -- maybe a few more now, about 17,000 people had rooftop installations. And we got -- there were federal credits involved, but those usually got sold to other people in terms of tax credits. So they were being subsidized by the federal government, and that encouraged solar generation as it's encouraged us to do solar generation and wind generation as well. But the people who had these 17,000 rooftop installations were selling back to the grid at $0.10, roughly, a kilowatt hour. Energy we could purchase or produce, but purchased elsewhere, too, for $0.035 or thereabouts. So 99% of our consumers were being asked to subsidize the 1% that had solar units by paying them a significantly -- triple the marketplace basically, of what we could otherwise buy electricity through the cell [ph] of the 99%. So then it's just a question whether you wish to have the 99% subsidize the 1%. And the public utility commission in Nevada, they had originally let this small amount of rooftop solar generation be allowed as an experiment with this roughly $0.10 rebate. And they decided that they did not believe that the 99% should be subsidizing the 1%. There's no question that for solar to be competitive, just like wind, it needs subsidization. Costs are not yet at a level where it becomes competitive with natural gas, for example. And who pays the subsidy gets to be a real question, if you want to encourage people to use renewables. And in general, the federal government has done it through tax subsidies, which mean taxpayer generally, throughout the country, subsidized it. And the public utility commission in Nevada decided that after seeing this experiment, they decided that it was not right for 1 million -- well over 1 million customers, to be buying electricity at a price that subsidized these 17,000 people and, therefore, increase the price of electricity for the million. And that question of who subsidizes renewables and how much is going to be a political question for a long time to come. And I personally think that if society is the one that's benefiting from the lack of reduction of greenhouse gases, that society should pick up the tab. And I don't think that somebody sitting in a house in some place in Nevada, we'll call it Las Vegas, but it could be other cities, we serve mostly Nevada, should be picking up the subsidy for their neighbor. And the public utility commission agrees with that. I think we have Greg Abel here who -- NV Energy, as a subsidiary of Midamerican -- of Berkshire Hathaway Energy. Greg, was there anything you want to add? Can we get a spotlight down here, maybe to [indiscernible]?

Gregory Edward Abel
Former CEO of Midamerican Energy Holdings Co and President of Midamerican Energy Holdings Co

So as usual, Warren, you summarized it extremely well. When we think of Nevada, it's exactly as you've described. I would just add a few things: one, as you've touched on earlier, we absolutely support renewables. So we started with the fundamental concept that we are for solar. But as you highlighted, we want to purchase renewable energy at the market rate, not at a heavily subsidized rate that 1% of the customers will benefit from and harm the other 99%. And it goes back to being as fundamentalist as this: If you take, as you touched on, a working family in Nevada who can't afford the rooftop unit and you asked them, do you want to subsidize your neighbor? That 1%? The answer is clearly no. At the same time, we're absolutely committed to Nevada utilizing renewable resources and absolutely proud of what our team is doing. By 2019, we'll have eliminated or retired 76% of our coal units and be replacing it with solar energy. So we're on a great path there. Thank you. And we're just encouraged, our team and with the work of the commission and obviously led by the state, we'll head down a great path. Thank you.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, the projection as we put up, Slide 7, it will give you a view of what the situation is, and this counts all of our Berkshire Hathaway Energy operations. And you can see on a 20-year period, we'll have a 57% reduction. You wouldn't want 100% reduction tomorrow, believe me, the lights would dim all over the country. But it's moving at a fast pace. But you do -- you want to be sure that you treat fairly the people involved in this, because somebody pays the cost of electric generation. And I do think that if you're doing something that's to benefit the planet, and it's important to be done, but that you have the cost be assessed for that not on a specific person who's having trouble perhaps making ends meet in their job. And obviously, if you've got over 1 million customers in Nevada, a lot of them struggling. A lot of them are doing fine, too. But they are not the ones, in my view, to subsidize the person who could afford to put a solar unit in. Okay, Cliff?

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

Over the past year, we learned -- perhaps I've learned, that Berkshire's results are more influenced by oil markets than I previously appreciated. Revenues at the railway company and some of Berkshire's manufacturing businesses were negatively impacted. And arguably, low gas prices hurt GEICO's loss ratio. Yet during this year, Berkshire invested in Phillips 66, Kinder Morgan, and even PCP has revenues associated with the oil and gas industries. And I know Berkshire wouldn't make a bet on a commodity like oil, but is Berkshire making a statement about the long-term outlook for oil?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Making a statement about what?

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

Oil.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

The price of oil?

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

Yes.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

No. We haven't the faintest idea what the long-term price of oil was. And there's always a better system available. You can buy oil, as you know, for delivery a year from now or 2 years from now or 3 years from now. We actually did that once, Charlie, didn't we, at -- some years back?

Charles Thomas Munger
Vice Chairman

Yes. We cashed it in too soon too.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. We made money, but we could've made a lot more money. But the -- we don't think we can predict commodity prices. We don't hedge cocoa or sugar at any rate. However, we do some forward buying of coatings [ph], or something sort of like that. But basically, we are not 2 fellows who think we can predict the price of soybeans or corn or oil or anything else. So anything you have seen in our investment transactions, some of the securities you mentioned there were bought by Todd or Ted, and one was bought by me. But neither they nor I bought those, or if we sell them, sell them based on commodity price predictions. We don't know how to do it. But -- and we're thinking about other things when we make those decisions. Charlie?

Charles Thomas Munger
Vice Chairman

I'm even more ignorant than you are, and that might be hard to beat.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. I think that's the first time I've heard you say that. It has a nice ring to it. Okay. Station 5.

Ken Martin

Warren, Charlie. I'm Ken Martin, an MBA student from The Tuck School of Dartmouth. My question is about college tuition and the problem of rising student debt balances. In the past, prominent philanthropists have founded institutions that are now prominent research universities in our country. Why is this not a bigger part of today's philanthropic debate, the founding of new colleges? Would not new supply in higher education be at least part of the solution to this problem?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Charlie, you want to tackle that one? You're more than of an expert than I am.

Charles Thomas Munger
Vice Chairman

Yes, I think that if you expect a lot of efficiency -- financial efficiency in American higher education, you're howling at the wind.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I'm thinking -- also talking about just more philanthropy delivered, am I right? You want to give him the light back on there?

Ken Martin

Yes, that's right.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

What's the question again?

Ken Martin

The question about maybe -- whether more philanthropy ought to be devoted to that, relatively, because of the cost. But...

Charles Thomas Munger
Vice Chairman

Well, I do a lot more than Warren does in this field, and I'm frequently disappointed. But monopoly has -- and bureaucracy have kind of the burnished this effect everywhere, and the universities aren't exempted from it. But of course they are the glory of civilization, and if people want to give more to it, I'm all for it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, and the -- you've got the option of very good state schools, and we spend a lot of money in education in this country. If you just take -- if you take kindergarten through 12 -- it's interesting, people talk about entitlements in this country and say "Oh, it's terrible we have all these entitlements for social security and everything." But we have entitlements for the young. We spend $600 billion a year educating 50 million kids in the public schools between kindergarten and 12th grade. And just think of what that is as an entitlement. Nobody ever seems to bring that up. But it's a huge -- and I believe in it, obviously. But the people in their working ages, generally speaking, I think have an -- in a rich society have an obligation to both the young and old. And based on the amount we spend, it would -- if we have problems with our school system, it's not because we're cheap. There are other problems that contribute to it. In terms of the money we put out, we're right up there. But I was the trustee of a college that saw the endowment grow from $8 million to over $1 billion, and I didn't see the tuition come down and I didn't see the number of students go up.

Charles Thomas Munger
Vice Chairman

Nothing went up, except the professors' salaries.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. From $8 million to $1 billion. I mean -- and very decent people running the place. But when you read the figures on endowment of the big schools, and some of them really got up in the big numbers, the main objective of the people running the endowment is to have the endowment grow larger. And that will be ever thus, the way humans operate. Any more comments on that, Charlie? You've seen a lot.

Charles Thomas Munger
Vice Chairman

I have made all the enemies I can afford at the moment.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. That's never slowed you down in the past. Andrew?

Andrew Ross Sorkin

This from a shareholder who asks to remain anonymous: "If Donald Trump becomes the president of the United States, and recognizing your public criticism of him and your public support for Hillary Clinton, what specific risks, regulatory, policy or otherwise, do you foresee for Berkshire Hathaway's portfolio of businesses?"

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

That won't be the main problem. Well, government is a very big factor in our business and in all businesses. I mean, there's the very broad policies that affect, frankly, everybody, and sometimes there can be some pretty specific policies. But I would predict that if Donald -- either Donald Trump or Hillary Clinton becomes president, and one of them is likely to be, very likely to be, I think Berkshire will continue to do fine. Charlie?

Charles Thomas Munger
Vice Chairman

I'm afraid to get into this area.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. We've operated under all -- I mean, we've operated under price controls. I mean, we've had 52% federal taxes applied to our earnings for many years, even -- I mean, they were higher at other times. But there have been -- we've had regulations come along, and in the end, business in this country has done extraordinarily well for a couple of hundred years and has adapted to the society and the society has adapted the business. And this is a remarkably attractive place in which to conduct a business. Imagine in a world practically 0 interest rates, American business earning terrific returns on tangible equity. I mean, those are the assets that were actually employed in the business. The numbers are staggering. And people who've had their money in savings accounts, some of them get destroyed. But owners of business, if you look at returns on tangible equity, just check them out some time, and they have not suffered even as people who own fixed interest, fixed income instruments have suffered enormously. And farm prices are down, now farmer income has fallen off a lot in the last couple of years. But business has managed to take care of itself and for good reason, because it contributes to and has been the engine of a market economy that's delivered output that is staggering by the imagination of anyone that might have existed 100 years ago. In my lifetime, the GDP per capita in real terms of the United States has gone up 6 for 1. Can you imagine? In a society where in one person's lifetime, overall, people have 6x the real output that they had at the beginning. It's -- the system works very well in terms of aggregate output. In terms of distribution of that output, sometimes it can fall very short, in my view. But it'll keep working. You don't have to worry about that. 20 years from now, there'll be far more output per capita in the United States in real terms than there is now. In 50 years it will be far more, and the quality will get better. And no presidential candidate or president is going to end that. They can shape it in ways that are good or bad, but they can't end it. Now Charlie, give us something pessimistic here to balance it.

Charles Thomas Munger
Vice Chairman

No. I want to say something optimistic. And I think that the GDP figures greatly understate the real advantage that our system has given our citizens. It under weighs lot of huge achievements because they don't translate right into money in a certain way that the economists can easily handle. But the real achievements over the last centuries are way higher than are indicated by the GDP figures, and the GDP figures are good. I don't think this issue [ph] will be -- is necessarily going to be as quite as good as the past, but it doesn't have to be.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

There's no one you'll run in to, at least in my experience, that says, "With my same talents, I wish I've lived 50 years ago instead -- or 50 years earlier." But a significant -- the majority of the American public thinks that it's a bad time to be born today, compared to when they were born. I can assure you that they're wrong. I mean, it's -- the pace of innovation -- just think how different you're living compared to 20 years ago in terms of what you do with your time now. A lot of people may condemn it or something of the sort, but you're making free choices that were not available to you 20 years ago, and you're making them in a different direction than -- I'm still staying with the landline, but you people are way ahead of me. Okay, Gregg?

Greggory Warren
Morningstar Inc., Research Division

Warren, late last year, we saw Canadian Pacific make a hostile bid for Norfolk Southern, a combination that would have linked to you Canada's second-largest carrier with one of the 2 largest railroads in the Eastern U.S. This move led to a largely negative reaction from not only Norfolk Southern, but from federal and state lawmakers, shippers and other railroad operators even though a formal evaluation process hadn't even begun with the U.S. Surface Transportation Board. Canadian Pacific eventually backed down. Looking back to 1999 when the transportation board blocked a proposed merger between BNSF and Canadian National, the attitude was that any additional mergers amongst railroads would have to be accretive to competition. What do you think they meant by this? And if one believes that the hookup of one of the 2 major Western railroads with one of the 2 Eastern railroads would not alter the current landscape where most shippers have just 2 choices amongst the larger railroads operating in the region and could actually generate efficiencies and cost savings like in the past to customers, how does the combination of someone like BNSF with Norfolk Southern or CSX not satisfy their goal?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I think now there's -- Matt Rose, is he here? He can probably answer that, some of that, better that I can certainly. He can answer all of it better than I can. Yes, there's Matt.

Matthew K. Rose
Chairman of Burlington Northern Santa Fe, LLC and CEO of Burlington Northern Santa Fe, LLC

Yes. So the statement is actually right. Back in 1999, we had a failed merger with Canadian National. New rules were put in place by our regulator, a little group called the STB. And what they said was that the public litmus test for the next merger would have to be different. And at that point in time, we didn't really think that a large merger was possible. And so when Canadian Pacific announced their merger of the Norfolk Southern, when we think about our for 4 constituencies, and those 4 are: our customers; the labor groups; the communities in which we serve; and shareholders, which our shareholder of course is BRK, we didn't see any interest in the final round of these mergers occurring outside of the shareholder community. And so our position was simply to say, if the rest of the shipping community believes that we ought to cede this final round, that's fine. We'll participate, but we don't see it occurring right now. We do believe that when that final round occurs, there will be great efficiencies made for shippers and communities. But right now, we don't see the dynamics in place. So what are those dynamics? It'll be as the country continues to grow in population from where we are today, 315 million people to, say, 320 million, 330 million, 350 million, transportation becomes more scarce and the railroads will need to do more. And that's really when we think the next round will occur.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Station 6?

Unknown Attendee

My name is Michael Mazia [ph] I'm from Brooklyn, New York, and I'll be starting at [indiscernible] school in the fall. In an interview with Bloomberg Markets recently, Jamie Dimon defended the role banks play in financial markets, saying "Banks aren't markets. The market is amoral. You're a trade to the market. A bank is a relationship." But banks, mainly investment banks, have struggled as regulators have favored market-based solutions and many of those relationships investment banks have worked so hard for have proven to be less lucrative, especially compared to the growing fixed cost of supporting them. As it relates to our marketable securities portfolio, how do you feel about the investment banking component, particularly as wealth moves into that space? Would you feel differently if the cost basis was higher? And Warren, Charlie, thank you so much for doing this every year.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I didn't totally get that, but do you feel the investment banking firms are being disadvantaged?

Charles Thomas Munger
Vice Chairman

Well, basically he said how do we feel about that Jamie says that you can't make as much money as you used to out of their relationships, and it's getting tougher and so forth.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Well, the public policy since 2008, '09, has been to very much toughen up capital requirements in a variety of ways for banks. But it is specifically designed to make large banks, very large banks, less profitable relative to smaller banks, and you do that by increasing capital requirements. And you can change the math of banking and the attractiveness of banking, totally, by capital requirements.

Obviously, if you said every bank had to be 100% equity, it would be a terrible business. You couldn't possibly earn any money that was significant on capital. And if you let people operate with 1% capital ratios, they can make a lot of money and they will cause the system all kinds of trouble. So since 2009, the rules have been told against the larger banks by -- primarily from capital requirements. And that just means returns on equity go down, but returns on equity were awfully high prior to that. So this, it hasn't turned it into a bad business, it's turned it into a less attractive business than earlier. And that -- some of the investment banks operate as bank holding companies. Some of them have been affected by those capital requirements. So I'm not sure getting 100% to your question, so I invite you to give me a follow-up, if you'd like, on that.

Unknown Attendee

In the marketable securities portfolio, do you feel good about the going forward prospects of the investment banking companies, especially as Wells Fargo moves into that business?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, Wells Fargo has an investment banking aspect to it that primarily came in through Wachovia. And it's not insignificant, but our ownership of Wells Fargo, which is very large, it's our largest single marketable security, not counting [indiscernible] times, which is about the same size, because that -- in that situation, we're in the control position, but it's the largest non-control situation that we have at Wells Fargo. And that's my intent. I like it extremely well compared to other securities, not because it has the most upside, but I feel that we're weighted for upside and downside that it's...

Charles Thomas Munger
Vice Chairman

But it's not the investment banking in terms of investment in Wells Fargo. It's the general banking that...

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. No, we're not in -- it isn't that big a deal, and that's not what attracts us. We think Wells Fargo's a very well-run bank, but we didn't make any decision to buy a single share based on the fact they were going to be more in the investment banking business because of the Wachovia acquisition.

They've got a lot of sources of income. They've got a huge base of very cheap money, but unfortunately they've got a lot of very cheap rates on the other side now. But spreads will probably work in their advantage eventually, and we think it's a very well-run bank.

Investment banking business, Charlie and I are probably a little affected by the experience we had in running one for a short period of time. It's not been something we invest in significantly. We obviously made a major investment in Goldman Sachs and we continue to hold shares that came out of the warrants that we received when we made the investment in 2008, but I think I can't recall us making a investment banking -- purchased a marketable security involving an investment bank for a long time. Can you, Charlie?

Charles Thomas Munger
Vice Chairman

No. I think, generally, we fear the genre more than we love it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Carol?

Carol Loomis

In the conclusion of the book "Dear Chairman", which you recommend in this year's annual letter, a new book you recommend, the author argues that, "the life's work of great investors is inevitably reabsorbed into the industrial complex with little acknowledgment of their accomplishments." He then argues that Berkshire Hathaway will eventually be targeted by activist investors if it trades at too sharp a discount to intrinsic value. Do you agree with this assessment? And have you considered installing corporate defenses that might prevent future generations of activists from trying to break up Berkshire Hathaway?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. I used to worry more about that than I do now. Partly, size is one factor. The -- I think the more important factor would be that Berkshire will always be in a position to repurchase very significant amount of stock. And as long as it's willing to buy that stock at some price -- and it should be close to intrinsic value, there should not be a large margin in terms of anybody that might come along.

I think there isn't a lot of money to be made by breaking up. There would be money lost by breaking it up in terms of we'd lose -- there would be certain advantages lost. MidAmerican Energy could not have done what it has done in renewables without Berkshire being the parent. I mean, if it had been split off, it would have been worth -- the parts would have been worth less than the whole. And there are other -- I could give you significant instances of that in other cases.

So I don't think there will be a spread that will be enticing to anyone. And beyond that, I think the numbers involved would be staggering, and I think we have a shareholder base that recognizes the advantages of both the Berkshire businesses and its culture. And so I think it's very, very unlikely. But there have been periods in business history where stocks sold at -- where probably all stocks sold at dramatic discounts from what you might call intrinsic value. And it's interesting, there's very low activity occurred there.

In the 1974 period, 1973 and '74, there were a company -- really good companies, one of which was CapCities, for example, that Tom Murphy ran, it was selling at a huge discount to what it was worth, but people did not come along. And so, to some extent, when the discounts are huge, money is hard to get. It's not a huge worry with me.

actually, in my own case, because of the way my stock will get distributed to philanthropies I have right now, they -- nobody -- it's very likely that my estate, for some years, would be by far the largest shareholder of Berkshire in terms of votes, even with this distribution policy that occurs. So I -- it's not something I worry about now. I used to worry about it some, but it's not a factor now. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think we have almost no worries at all on this subject. And that most other people have a lot of thoroughly justifiable worry, and I think that helps us. So I look forward on this subject with optimism.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Do you want to explain how it helps us, Charlie?

Charles Thomas Munger
Vice Chairman

Well, if you're being attacked by people you regard as evil and destructive and so on, and then you want a strong ally, how many people would you pick in reference to Berkshire?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

My name is Warren Buffett and I approve of that message. Jonathan?

Jonathan Brandt

Leasing has quietly become an important contributor to Berkshire's earnings with its several leasing units logging about $1 billion in combined annual pretax income. Could you talk about Berkshire's competitive advantages in its various leasing businesses, including containers, cranes, furniture, tank cars and railcars? Are there other leasing businesses you would be interested in entering, for instance, airplanes or commercial auto fleets? Plain leasing companies, in particular, seem to sell for reasonable prices and they are often available.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Well, we've got a very good truck leasing business in XTRA. We've got a good primarily tank car leasing business -- tank car in Procor [ph]. And we expanded by $1 billion when we bought the GE fleet recently. Leasing, generally, isn't something that -- we have to bring something to the party. At XTRA, that's much more than just handing people a trailer and taking a check every month. There's important service advantages brought to that.

But pure leasing, leasing new cars, which is a huge business, the math is not that attractive for us. The banks have an advantage over us because their cost of funds is so low. Now, it's not quite as low as it looks, but I think Wells Fargo -- I think the last figure was down around 10 basis points. And when somebody has, maybe $1 trillion or so and they're paying 10 basis points for it, I don't feel very competitive in Berkshire in that situation. So pure money-type leasing is not an attractive business for us when we've got other people at a lower cost of funds. I mean, they've got the edge.

And we have got -- railcar leasing involves a lot more than just a financial transaction. I mean, we repair -- we've got huge activity in the repair field, and those cars require servicing in the same way our trailer business, but you will not see us get an -- aircraft leasing doesn't interest me in the least. We've looked at that a lot of times, had various aircraft leasing companies offered to us. And that is a scary business. And some people have done well in it by, in recent years, by using short-term money to finance longer-term assets, which have big residual risks, and that just isn't for us. Charlie?

Charles Thomas Munger
Vice Chairman

I think you've said it pretty well. We're well okay with that now, but we -- I don't think that's a huge opportunity.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Station 7?

Vandermir Say

Warren and Charlie, I am Vandermir Say from the Philippines. Warren, my wife and I sent original paintings to your office 2 days ago and we hope you like them.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Thank you.

Vandermir Say

Today -- sorry, today, Berkshire's size ensures that it faces competition from numerous businesses. If you had the silver bullet, which competitor would you take out and why? And sorry, you -- and you can't say Donald Trump.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Which competitor in which businesses? I mean, you're asking about which of...

Charles Thomas Munger
Vice Chairman

Which competitor would you kill if you could? I don't have think we have to answer this one.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Charlie's a lawyer. But I thought about the question. And we have lots of tough competitors. And we're -- in many areas, we're a pretty tough competitor ourselves.

And the real -- what we want our managers to be doing is thinking every day about how to achieve a stronger competitive position. We call it widening the moat. But we want to turn out better products. We want to keep our costs down to a minimum. We want to be thinking about what our customers' likely to be wanting from us in a month, a year, 10 years from now. And generally, if you take care of your customer, the customer takes care of you.

But there are cases where there is some force coming along that really is -- you may not have the answer for, and then you get out of that business. We had that department store in Bolivar in 1966 and, if we'd kept it, we would have gone out of business. So recognizing the reality is also important. I mean, you do not want to try and fix something that's unfixable.

Charles Thomas Munger
Vice Chairman

And we're not targeting competitors for destruction. We're just trying to do the best we can everywhere.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Spoken like an antitrust lawyer. Okay. We really hope to be the ones that the other guys want to use a silver bullet on. Becky?

Becky Quick

This question comes from [indiscernible] from Sugarland, Texas. He writes, "My wife and I have the vast majority of our net worth invested in Berkshire and in shares of the Sequoia fund. Mr. Buffett, you have endorsed the Sequoia fund on more than a few occasions. Recently, the Sequoia fund has been in the news because of its large position in Valeant Pharmaceuticals. Mr. Munger has turned Valeant's business model highly immoral. Mr. Buffett, do you agree with Mr. Munger's assessment? Have your views about Sequoia fund changed? Also, as you know, Sequoia is an admirer, in large part, holder, of Berkshire stock."

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. In a sense, I'm the father of Sequoia fund in that when I was closing up my partnership at the end of 1969, I was giving back a lot of money to partners, and these people have trusted me and they wanted to know what they should do with their money. And we helped out those who wanted to put municipal bonds for a few months, those got, and I stayed around and helped those people come up with those. But most of them were equity-oriented type investors. And we said there were 2 people that we admired enormously in the investment business, not simply because they were terrific investors, but they were terrific people and they would be the kind of people that you'd make trustee of your will.

So those 2, one of whom is in the room, Sandy Gottesman, a director, and one was Sandy and one was Bill Ruane. They were friends themselves. So Sandy took on a number of our clients, a number of our partners, and they became clients and very happy clients of his. And I'll bet some of them are still clients or their children or their grandchildren are to this day. Others, when -- a lot went with both of them actually. In fact, I wouldn't be surprised that the majority who had a lot of money gave some to Sandy and gave some to Bill. But Bill, we had a lot of people whose total funds were really not of a size that made them economic individual clients. And so, Bill, who would not have otherwise set up a fund, Bill said, "I'll set up a fund." And they actually had an office in Omaha. John Harding, who used to work for me, became an employee here. And a number of our ex-partners, my ex-partners, joined Sequoia fund as a way to find a outstanding investment manager, like I say, both for ability and for integrity, and could deploy small sums with him. And Bill ran Sequoia until, I think, roughly 2005 when he died, and did a fantastic job. And even now, if you take the record from inception to, now, with the trouble they've had recently, I don't know of a mutual fund in the United States that has a better record. There probably is one maybe, or 2. But then -- but it's far better than the S&P, and you won't find any records that go for 30 or 40 years that are better than the S&P. So Bill did a great job for people. And though he died in 2005, the record continued to be good until a year or so ago. And at that time, they -- the management company -- or the manager, I should say, took an unusually large position in Valeant and, despite the objection of some people on the board, not only maintained that position, but actually increased it after a fair amount have doubted him, which [indiscernible].

The record, like I say, to-date, still, from when it started, is significantly better than average. My understanding is that the manager who made the decision on Valeant is no longer running the operation and that other people who have had [indiscernible] him for doing so, and I have every reason to believe that they're -- I know that they're very smart, descent people who are good, probably way better than average analysts, in terms of Wall Street. So I think it was a very unfortunate period when the manager got overly entrenched with a business model, which, if you -- I watched the Senate hearings a couple of days ago when Senator Collins and Senator McCaskill interrogated 3 people from Valeant, and it was not a pretty picture.

But in my view, the business model of Valeant was enormously flawed and have been touted to us, we had several people who urged us strongly to buy Valeant, one asked to meet in person, all that sort of thing, but it illustrated a principle that [indiscernible] I think said many, many years ago. He said if you're looking for a manager, find somebody that's intelligent, energetic and has integrity. And he said that if they don't have the last, be sure they don't have the first two. If somebody integrity, you want to be dumb and lazy. And if you've got an intelligent, energetic guy or woman who is pursuing a course of action which you'd put on the front page and would be -- make you very unhappy, you can get in a lot of trouble. It may take a while.

But Charlie and I have seen, and we're not -- we won't be perfect at this, I don't mean that, but we've seen patterns. We get pattern recognition. It's very important in evaluating humans and businesses. And the pattern recognition isn't 100%, and in other patterns, they could not repeat themselves, but there are certain things in business and securities markets that we have seen over and over and that frequently come to a bad end, but frequently look extremely good in the short run. And one which I talked about last year, I'm not referring to Valeant in this regard, it was the chain letter scheme, the disguised chain letter. This is -- you're going to see chain letters the rest of your life, and not -- nobody calls them chain letters because that has a connotation that will scare you off, but the disguised kind of chain letters. And many of the schemes in Wall Street that are designed to fool people have that particular aspect to it. And there were patterns at Valeant that I think, certainly, if you'll go and watch those Senate hearings, I think you'll decide that there were patterns there that really should have been picked up on. And it's been very painful to the people of Sequoia.

And I personally think that the people running Sequoia now are able people. And I'll get into it in a second, the difficulty of managing money per person. I'll give Charlie a chance to comment on this.

Charles Thomas Munger
Vice Chairman

Well, I totally agree with you that Sequoia has reconstituted, is a reputable investment fund, and the manager that reconstituted is a reputable investment adviser. And I've got quite a few friends and clients that use [indiscernible] and I've advised them to stay with them, plain sense, reconstituted. And I believe you've done the same thing, haven't you?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Right.

Charles Thomas Munger
Vice Chairman

So we trust -- we think the whole thing's fixed. And Valeant, of course, was a sewer. And those who created it deserve all the appropriate met [ph] they got.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

In a few minutes, we'll break, but I think it almost ties in with this last question. If we could put Slide 3 up. I promised -- some years ago, I made a wager and I promised to report before the lunch how the wager was coming out. And I've been doing that regularly. But it probably seems appropriate, as it's developed thus far, to point out a rather obvious lesson, which was what I hoped to drive home to some degree by offering to make the wager originally.

Incidentally, when I offered to make the wager, namely, that somebody could pick out 5 hedge funds and I would take the unmanaged S&P Index used by the Vanguard Fund, and I would bet that, over a 10-year period, that the unmanaged index would beat these 5 funds that were all being managed, presumably. They could pick any 5 funds that were managed by people who were charging incredible sums to people because of their supposed expertise. And fortunately, there's an organization called -- or at least, if you go to the Internet, if you put in longbets.org, it's a terribly interesting website. And you have a lot of fun with it, because people take the opposite side of various propositions that have a long tail to them and make bets as to the outcome, and then they both give their insight, give their reasons. And you can go to that website and you can find bets about whether what population will be doing 15 years from now or all kinds of things. And our bet became quite famous on there. They -- a fellow I like, who I didn't know before, this Ted Seides, bet that he could pick out 5 hedge funds. These were funds of funds. In other words, there was one hedge fund at the top, and then that manager picked out who he thought were the best managers underneath, and then bought into these other funds in turn, so that the 5 funds of funds represent maybe 100 or 200 hedge funds underneath.

Now, bear in mind that the hedge fund -- the fellow making the bet was picking out funds where the manager on top was getting paid perhaps a 0.5% a year, plus a cut of the profits, for merely picking out who he thought were the best managers underneath, who in turn were getting paid maybe 1.5% or 2% plus a cut of the funds on profits. But certainly, the guy at the top was incentivized to try and pick out great funds and, at the next level, those people were presumably incentivized, too.

So the result is after 8 years and several hundred hedge fund managers being involved is that, now the totally unmanaged fund by Vanguard, with very, very, very minimal cost, is now 40 some points ahead of the group of hedge funds.

Now, that may sound like a terrible result for the hedge funds, but it's not a terrible result for the hedge fund managers. These managers: a, you've got this top-level manager that's charging probably 0.5%, I don't know that for sure, and down below, you've got managers that are probably charging 1.5% to 2%. So if you have a couple of percentage points sliced off every year, that is a lot of money.

We have 2 managers at Berkshire that each manage $9 billion for us. They both ran hedge funds before. If they had a 2-and-20 arrangement with Berkshire, which is not uncommon in the hedge fund world, they would be getting $180 million each merely for breathing, annually. I mean, that -- it's a compensation scheme that is unbelievable to me. And that's one reason I made this bet.

But what I'd like you to do is, for a moment, imagine that in this room we have the entire -- you people own all of America. All the stocks in America are owned by this group. You are the Berkshire 18,000 or whatever it is that has somehow managed to accumulate all the wealth in the country. And let's assume we just divide it down the middle. And on this side, we put half the people, half of all the investment capital in the world, and that capital is what a certain presidential candidate might call low-energy. In fact, they have no energy at all. They buy half of everything that exists in the investment world, 50%, everyone on this side.

And so now half of it is owned by these no-energy people. They don't look at the stock prices. They don't turn on business channels. They don't read The Wall Street Journal. They don't do anything. They are a slovenly group that just sits for year after year after year owning half of the country, half of America's business.

Now, what's their result going to be? Their result is going to be exactly average as to how American business does because they own half of all of it. They have no expenses, no nothing.

Now, what's going to happen with the other half? The other half are what we call the hyperactives. And the hyperactives, their gross result is also going to be half, right? They can't -- the whole has to be the sum of the parts here in this group, by definition, can't change from its half of the investment results. This half is going to have the same gross results. They're going to have the same results as the low-energy, no energy people, and they're also going to have terrific expenses because they're all going to be moving around, hiring hedge funds, hiring consultants, paying lots of commissions and everything. And that half, as a group, has to do worse than this half. The people who don't do anything have to do better than the people that are trying to do better. That's simple. And I hoped, through making this bet, to actually create a little example of that.

But that offer was open to anybody and I would make, incidentally, the same offer now, except being around in 10 years to collect is a little more problematic as we go through life. But it seems so elementary. But I will guarantee you that no endowment fund, no public pension fund, no extremely rich person wants to sit in that part of the auditorium. They just can't believe that because they have billions of dollars to invest that they can't go out and hire somebody who will do better than average. I hear from them all the time.

So this group over here, supposedly sophisticated people, generally richer people, hire consultants, and no consultant in the world is going to tell you just buy an S&P index fund and sit for the next 50 years. You don't get to be a consultant that way and you certainly don't get an annual fee that way. So the consultant's got every motivation in the world to tell you, this year, I think we should concentrate more on international stocks or, this year, this manager is particularly good on the short side. And so they come in and they talk for hours and you pay them a large fee, and they always suggest something other than just sitting on your rear end and participating in American business without costs. And then, those consultants, after they get their fees, they, in turn, recommend it to other people who charge fees, which, as you can see over a period of time, cumulatively eat up capital like crazy.

So I would suggest that what I felt sure -- not quite sure, because you can't tell for sure about any 10-year period. But it certainly felt very probable or I wouldn't have stuck my neck out. It just demonstrates so dramatically -- I've talked to huge pension funds and I've taken them through the math, and when I leave, they go out and hire a bunch of consultants and pay them a lot of money. And it's just unbelievable. And the consultants always change their recommendations a little bit from year-to-year. They can't change them 100% because then it wouldn't look like they knew what they were doing the year before, so they tweak them from year-to-year and they come in and they have lots of charts and PowerPoint presentations and they recommend people, who in turn are going to charge them a lot of money. And they say, well, you can only get the best talent by paying 2-and-20 or something of sorts. And the flow of money from the hyperactive to what I call the helpers is dramatic, while this group over here sits here and absolutely gets the record of American industry.

So I hope you'll realize that for most -- for the population as a whole, American business has done wonderfully. And the net result of hiring professional management is a huge minus. And in the bookstore, we have a little book called, "Where Are the Customers' Yachts?", written by Fred Schwed, who I met when I was about 10 years old, and updated -- well they haven't updated it, but new additions have been put out a few times. But the basic lessons are there. That lesson has told in that book from 1940, it's so obvious, and yet all the commercial push is behind telling you that you've got to think about doing something today that's different than you did yesterday. You don't have to do that. You just have to sit back and let American industry do his job for you.

Charlie, do you have anything to add to my sermon?

Charles Thomas Munger
Vice Chairman

We are talking to a bunch of people who have solved their problem by buying Berkshire Hathaway. That worked even better. And there have been a few of these managers or managers who have actually succeeded. There are few in the universities who are really good. But it's a tiny group of people. It's like looking for a needle in a haystack.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

And when I was given the job of naming 2 in 1969, I knew 2, I knew a couple of -- I knew Charlie wasn't interested in managing more money then my friend Walter Schloss would not -- he would not scale up well, although he had a fabulous record over 45 years or thereabouts. But that was all I could come up with at that time. And fortunately, I did have a couple. And the people who went with Sequoia fund have been well-served if they stayed for the whole period.

But the people -- there's been far, far, far more money made by people in Wall Street through salesmanship abilities than through investment abilities. There are a few people out there that are going to have an outstanding investment record, but there are very few of them. And the people you pay to identify them, don't know how to identify them. And they do know how to sell you, and that's my message.

We'll come back at 1:00.

[Break]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. If you all take your seats, we'll get underway. And next up is Cliff.

Cliff Galant

Berkshire has an online portal for commercial insurance business. I believe it's CoverYourBusiness.com. Is there an opportunity in commercial lines to go direct, akin to what we've seen GEICO do in personal auto insurance?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Well, the answer to that is we'll find out. We have actually 2 online arrangements. I'm not sure whether they're both up yet. One is called, I believe it's called Big. I think we got that domain name, B-I-G. And that will be run by the Applied Underwriters, which is a subsidiary of ours, that writes workers' comp. And the other is run by [indiscernible]. And actually we do, do -- we do commercial auto, some commercial auto through GEICO as well.

So we will learn soon -- I guess, my message about inherited wealth is getting delivered here. He just probably wants to put himself up for adoption now. So we will be -- we have been a little bit and we will be experimenting more with various insurance lines.

When you look at what has happened, let's take Amazon, you have to -- you want to try a lot of things. And it amazed me how fast the inquiries on personal auto migrated from phone to the Internet. And I would've thought that the younger people would do it, but the people like myself would be very slow to do it, but the adaptation by the American public of Internet response has been pretty incredible and shows no signs of slowing down. So the answer is: We'll try various things and we'll make some mistakes. And my guess is that 10 and 20 and 30 years from now, we'll be a lot different. Station 8.

Unknown Attendee

All right. My name is Mac Clayborn [ph] from Columbus, Ohio. And thank you for putting this on for all of us.

My question is you have said before that your role will be divided into parts for your succession, one of which will be -- is the responsibility of maintaining culture by having power as Nonexecutive Chairman. What is the plan for how Berkshire will maintain its culture when Howard no longer fills the role? And what should shareholders watch for to make sure that the culture is being properly maintained decades from now, when I'm your age?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Well, that's a question we've obviously given a lot of thought to. And although I hope that Howard as main Chairman just for the reason that, if a mistake is made in selecting a successor, it's easier to correct it if you have a Nonexecutive Chairman. But that's a very, very -- I mean, that's a one in 100 or one maybe in 500 probability, but there's no sense ignoring it totally. It's not a key factor.

The main -- by far, the main factor in keeping Berkshire's culture is that you have a board and you'll have successor board members, you have managers and you'll have successor managers, and you have shareholders that clearly recognize the special nature of the culture. That have embraced the culture, when they sold their businesses to us, they wanted to join that culture. It's a -- it thrusts out people that really aren't in tune with it, and there are very few of them, and it embraces those who enjoy and appreciate it. And I think, to some extent, we don't have a lot of competition on us. So it becomes very identifiable, and it works.

So I think the chances of us going off the rails in terms of culture are really very, very, very slight, regardless of whether there's a Nonexecutive Chairman or not, but that's just a small added protection.

So it's -- I think that the main problem that Berkshire will have will be size. And I've always thought that, when I was managing money, when I first tried managing money: Size is the enemy of performance to a significant degree. But I do think that the culture of Berkshire adds significantly to the value of the individual components viewed individually. And I don't see any evidence that there would be any board member, any managers or anything that would -- could, in any way, really move away from what we have now for many, many decades. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I'm even more optimistic than you are. I'd never noticed it. I really think the culture still surprised everybody by how well it lasts and how well they do. They're underway [indiscernible] in the first place. It's going to work very well.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

We've got so many good ingredients in place just in terms of the businesses and the people already here in that...

Charles Thomas Munger
Vice Chairman

That's what I'm saying. There's just so much power in place.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Another thing that's interesting is how little turnover we get in it, too. So that the number of managers that have been needed and we've had to replace in the last 10 years are very few. Lately -- without a retirement age, and I tend to bring that up at every meeting to reinforce the idea.

The -- without a retirement age and with people working because they love their jobs and they like the money as well, but their primary motive is that they really like accomplishing what they do in their jobs. And that means that we get long tenure out of our managers, so the turnover is low. The directors are not here for the money. And so we have great tenure among the directors. I would argue that's a huge plus. It's going to go on a very long time. Andrew?

Andrew Ross Sorkin

Warren, the following question comes from Alex Galdos [ph] and several other shareholders asked a similar questions that are part of this as well. It's a bit of a multipart question. About 2 dozen men and women work with you, Warren, at our corporate office. I see from last year the quality of the picture has been improved in the annual report, so congratulations on that. However, looking at it, there is something that comes to anyone's attention and it's the lack of diversity among the staff. A 2015 analysis by Calvert Investments ran that Coca-Cola was one of the best companies for workplace diversity, while Berkshire Hathaway was one of the worst. You've explicitly stated that you do not consider diversity when hiring for leadership roles and board members. Does that need to change? Are we missing any investment opportunities as a result? And do you consider diversity, however defined, company leadership and staff, when analyzing the value of a company that you may want to purchase?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, that's a multiple part question. The answer to the last one is no. What was the one before?

Unknown Attendee

You've explicitly stated you do not consider diversity when hiring for leadership roles and board members. Does that need to change? And are we missing any investment opportunities as a result?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

No. We will select board members -- and we lay it out. And have done so for years and I think we've been much more explicit than most companies. We are looking for people who are business-savvy, shareholder-oriented and have a special interest in Berkshire. And we've found people like that. And as a result, I think we've got the best board that we can have. They're not in it -- they're clearly not in it for the money. I get called by consulting firms who've been told to get candidates for directors for other companies. And by the questions they ask, it's clear that that's -- they've got something other than the 3 questions we ask in terms of directors in line. They really want somebody whose name will reflect credit on the institution, which means a big name. And one organization recently, the one that did the blood samples with small pricks, that they got some very big names on their board. And [indiscernible], I think that's the way you pronounce it, Charlie?

Charles Thomas Munger
Vice Chairman

Yes.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

[indiscernible]

Charles Thomas Munger
Vice Chairman

Yes.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. I mean, the names are great. But we -- we're not interested in people who want to be on the board because they want to make $200,000 or $300,000 a year for 10% of their time, and we're not interested in the ones who -- for whom it's a prestige item. I don't want to go in check boxes or that sort of thing. So I think we've got -- we will continue to apply that test, business-savvy, shareholder-oriented and with a strong personal interest in Berkshire. And every share that Berkshire that our shareholders own, they bought just like everybody else in this room. They haven't gotten them an option or they haven't gotten -- I've been on boards where they've given me stock. They -- I get it for breathing, basically. That happen in a dozen places that are -- maybe 3 or 4 that I was on the board of.

We want our shareholders to walk in the shoes -- I mean, our directors to walk in the shoes of our shareholders. We want them to care a lot about the business and we want to be smart enough so that they know enough about the business that they know what they should get involved in and what they shouldn't get involved in.

With people in the office, I'm hoping that when we take the Christmas picture again this year, they're exactly the same 25 of that were there last year, even though we might have added 30,000 employees elsewhere and maybe $10 billion of sales or something like that.

It's a remarkable group of people. And they -- I mean, just take this meeting, virtually every one of the 25, our CFO, my assistant, whoever, they've been doing job after job and connected with making this meeting a success and a pleasant outing for our shareholders. It's a cooperative effort. The idea that you would have some department called Annual Meeting Department and you'd have a person in charge of it where he would have an assistant and they would go to various conferences about holding annual meetings and build out, then they hire consultants that are going to help motivate, we just don't operate that way. It's a place where everybody helps each other in turn.

Part of the -- what makes -- part of what makes my -- well, my job is extraordinarily easy, but the people around me really make it easy. And part of the reason that it's easy is because we don't have any committees. Maybe we have some committee I don't know about, but I've never been invited to any committees, I'll put it that way, at Berkshire and we don't -- we may have a PowerPoint someplace, I haven't seen it and I would not use it anyway. The -- we just don't do -- we don't have make-work activities. And we might go to a baseball game together or something like that, but it -- I've seen the other kind of operation and I like ours better, I'll put it that way. Charlie?

Charles Thomas Munger
Vice Chairman

Well, years ago, I -- it's a word from the Roman Catholic Archbishop of Los Angeles. And my senior partner pompously said: You don't need to hire us to do this. There are some plenty of good Catholic tax lawyers. And the Archbishop looked at him like he was an idiot and said, Mr. Taylor [ph], he says, last year I had some very serious surgery and I did not look around for the leading Catholic surgeon. That's the way I feel about board members.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Gregg?

Greggory Warren
Morningstar Inc., Research Division

While Berkshire has authorized a share repurchase program originally aimed at buying back shares at prices no higher than 10% premium confirms most recent book value per share. I figure that was subsequently increased repurchase shares at prices no higher than 20% premium to book value. There has been relatively little share repurchase activity during the last 4.5 years. Even as the shares dipped down below the 1.2x book value threshold during both January and February of this year, if you base it on a buyback price cut related on Berkshire's book value per share at the end of 2015, a number that had not yet been published when the stock did dip that low. Given your belief that Berkshire's intrinsic value continues to exceed its book value, with the difference continuing to widen over time, are we at a point where it makes sense to consider buying back stock at a higher breakpoint than Berkshire currently has in place? And would you ever consider stepping in and buying back shares if they did dip down below 1.2x book value per share, even if their prior year's figure had not yet been released?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. We mentioned the insoluble 1.2x, and I don't think that's correct. I keep a pretty close eye on that. And it's come fairly close to 1.2x, but I can almost guarantee you that it has not hit 1.2x, or we would have done it. And I'd be happy to send you figures on any day that you might feel that it did hit the 1.2x.

Clearly, in my view, Charlie's view and the board's, the stock is worth significantly more than 1.2x, but it should be worth significantly more or we wouldn't have it at that level. On the other hand, we did move it up from 1.1x to 1.2x because we had acquired more businesses over time that were the differential between our carrying value and the intrinsic value really had widened from when we set the 1.1x.

I have mixed emotions on it in that, from strictly a financial standpoint and from the standpoint of the continuing shareholders, I love the idea of buying it at 1.2x, which means I probably would love the idea of buying it a little higher than 1.2x. On the other hand, I don't take -- and it's the surest way of making money for share there is. I mean, if you can buy dollar bills for anything less than $1, there's no more a certain way of making money.

On the other hand, I don't particularly like -- enjoy the actual act of buying out people who are my partners at a price that is below, well below what I think the stock is worth. So look, we will buy stock, almost certainly. We don't make it a 100% pledge because there'd be a lot of ramifications to that. But the odds are extremely high that we would buy a lot of stock at 1.2x or less, but we would do it in a manner where we were not dropping the stock at any given level. And if it happens, it will be very good for the stockholders who continue.

It is kind of an interesting situation though. Because if it's true that we will, and are eager even from a financial standpoint, to buy it at that price, it's really like having a savings account where if you take your money out as a dividend or as an interest payment on the savings account, you get $1, but if you leave it in you're almost guaranteed that we'll pay you $1.20. I mean, why would anybody going to take money out of a savings account if they could cash it in what they left at 120%. So it's a -- it acts as a backstop for ensuring that a no-dividend policy results in greater returns than it would be if we paid out $1 and people got $1. If they leave $1 in, they're going to get at least $1.20, in my view, at least. It's not a total guarantee, but it's a pretty strong probability.

So would we increase that number? Perhaps. If we run out of ideas, and I don't mean day-by-day, but if it really becomes apparent that we can't use capital effectively within the company, in the quantities with which it's being generated, then, at some point, the threshold might be moved up a little because you could still be attractive to buy. And you don't want to keep accumulating so much money that it burns a hole in your pocket. And it's been said actually that a full wallet is a little like a full bladder, that you may urge very quickly to pee it away. And we don't want that to happen. But so far, that hasn't happened. And we will look at -- if we ever got to where we have $100 billion or $120 billion or something like that around, we might have to increase the price. Any time you can buy stock in for less than it's worth, it's advantageous to the continuing shareholders, and -- but it should be by a demonstrable margin. You can't -- intrinsic value can't be that finely calculated that you can figure it out to 4 decimal places or anything of the sort. Charlie?

Charles Thomas Munger
Vice Chairman

Well, you'll notice that elsewhere in corporate America, these buyback plans get a life of their own. It's gotten quite common to buy back stock at very high prices that really don't do the shareholders any good at all. I don't know why people are exactly doing because I think it's going to be fashionable.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

It's fashionable and they get sold on it by advisors.

Charles Thomas Munger
Vice Chairman

Yes, that's true, too.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Can you imagine somebody going out and saying: We're going to buy a business and we don't care what the price is? We're going to spend $5 billion in share buying a business, we don't care what the price is. But that's what companies do and they don't attach some kind of a metric to what they're doing on their buybacks. They say we're going to buy back $5 million of stock, maybe they don't want to publicize the metric, but certainly, it -- they shouldn't say we're going to buy back $5 million of stock if it's advantageous to buy back. But they don't -- they say we're going to buy the XYZ Company, they say we'll buy it at this price, but we won't buy it at 120% of that price.

But I have very rarely seen -- Jamie Dimon is very explicit about saying he's going to buy back the stock, but he's buying it below what he considers intrinsic value of it to be. But I have seen hundreds of buyback notices and I've sat on boards and directors, one after another, where they voted buybacks and, basically, they said they were doing it to prevent dilution or something like that. It's got nothing to do with preventing dilution. Dilution, by itself, is a negative and buying back your stock at too high a price is another negative. So it has to be related to devaluation. And as I say, you will not find a lot of press releases that -- about buybacks that say a word about valuation.

Charles Thomas Munger
Vice Chairman

The occasion -- we're always behaving a lot like what some might call the Episcopal Prayer: We prayerfully thank the Lord that we're not like these other religions who are inferior. I'm afraid there's probably too much of that at Berkshire, but we can't help it.

Warren E. Buffett

Chairman of the Board and Chief Executive Officer

Okay. Station 9.

Unknown Attendee

Mr. Buffett, my name is Sean McHenry [ph] from Fort Worth, Texas. The Nebraska Furniture Mart has been open for about a year in Dallas. I was just curious how sales have been? How they compare to your other stores? And what you think it will be in the future?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. It's our largest store in volume, but we had a problem there that we had in Kansas City and we'll probably have every time we open a store, in that we generate so much initial volume that we had a delivery problem -- like I say, it was worse in Kansas City, but that was the first one we opened. So we really had to take our foot off the gas pedal because the last thing in the world we want to do is make first impressions with delivery problem, accompanied by a delivery problem.

So it's our largest store in volume. The deliveries have gotten far better. They actually are meeting our company standards that we have on Omaha, but that wasn't the case for some months. And it's hard to go open -- we opened up the largest home furnishing store in the United States, and we did it in an area where we naturally thought we trained the drivers as well as we could and everything. But delivery 100-plus units out there in the new operation, taking in carpet and people getting lost and robbing, being bad and all that. There was plenty of work to be done, and it's been done.

So I expect that store, which already is the largest store we have, but I think it will be $1 billion annual store before very long. We're getting ready to step on the gas, but it's a terrific, terrific area. We have 20-plus auto dealerships there. They're located in the Dallas-Fort Worth area. You probably have 3 or 4 of them in the area where our Furniture Mart is. They can't build fast enough down there. Toyota is moving there, Lexus it's -- it already is a great story, but it's going to be something even far beyond that. We've opened up about, I think, about 4 places so far and we've got 4 or 5 more in the works.

And they're going at a terrific volume. Certainly something [indiscernible] tremendous, terrific, fantastic. I've never seen anything like it. I think just want to make sure, I'll come back on Brigham. I'm really being in shape on that. And it's doing well. We couldn't have picked a better area. We have 400 -- yes, over 400 acres that we are very fortunate about [indiscernible] a whole bunch of land, and we're bringing prices in variety like nobody has seen. And we're just going to bring the deliveries like nobody has ever seen it. Okay, Carol?

Unknown Attendee

This question comes from Chris Taccio [ph] of New York. Mr. Buffett, you have expressed concern about cyber, biological, nuclear and chemical attacks. But preventing catastrophe is not getting enough attention. For example, a bill passed the House unanimously to harden the electric grid against a high-altitude nuclear explosion. Not too many bills passed unanimously these days, but then, the bill got bottled up in the Senate. Have you considered funding -- would it have been a good idea for you to consider funding, a lobby and an educational campaign to promote the public good in this area and counteract industry lobbyists who are more offering more interested in short-term profits?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, that, in my view, there is no problem remotely like the problem, what I call, CNBC: cyber, nuclear, chemical or biological attacks, that either by rogue organizations, even possibly individuals, rogue states, I mean, if you think about -- you can think about a lot about things, it will happen. I think we've been lucky. And frankly, the people do a very good job in government because government is the real protection on this in not having anything since 1945, even very, very close during the Cuban Missile Crisis. And I don't know what the odds were, but I do think that if there had been -- I can of think of many people that have been in places -- either Kennedy or Khrushchev it would've been a very different result. And it's the only problem. As I put in the annual report, it's the only real threat to Berkshire's economic -- external threat in terms of economic well-being over time. And I just hope -- it will happen. And that when it happens, that it's minimized. But the desire of psychotics, and megalomaniacs, and religious fanatics and whatever to do more harm on others is a lot more when you have 7 billion people on earth, than when you have 3 billion or so. Which was the case when I was born, less than 3 billion. And unfortunately, there are rules in doing it. I think when you're a psychotic back far enough, you'd throw a stone at the guy in next cave, and you would sort of lose your relationship with damages to psychosis. But then it went along to bows and arrows, and spears and cannons and various things. And in 1945 when you unleash something like the world will never have seen, and that isn't bupkis to compare to what they've done now. So there are plenty of people that would like to cause us huge damage. And I came to that view when I was in my 20s and in terms of my philanthropic efforts I decided that, that was intuitions that I thought should be the main issue when I got involved with all kinds of things concerning...

Charles Thomas Munger
Vice Chairman

You supported the Pugwash Conference year after year after year, frankly, all by yourself.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, and the concerned scientists. And so I've given some money to the Nuclear Threat Initiative that's going to create a sort of a Federal Reserve System of banking to uranium that will take away some of the excuses for countries to develop their own highly enriched uranium. So that -- but it's overwhelmingly a governmental problem when you're dealing. And it should be, and I think it actually has been, the top priority for a president after president. It's not the thing they go on talk about every day, and they don't want to scare the hell out of everybody. And they also don't want to -- people's answers to what they're doing. But being in the insurance business -- no, you don't have to be even be in the insurance business. You can -- you know that someday, somebody will pull off something at a very, very, very big scale that will be harmful. Maybe that the United States is probably the most likely place it happens, but it can happen a lot of other places. And that's the one huge disadvantage to innovation, I mean, people.

Charles Thomas Munger
Vice Chairman

Warren, I think you also asked why don't we, workers, spend a lot more time telling the government, what it should be doing and thinking.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I've tried telling them. And nobody disagrees with you on it, it just it seems sort of hopeless to them. I mean they don't know what to do beyond what they're doing. And incidentally they've done a lot of things. I mean, not all gets publicized. But -- and I think Kennedy and Khrushchev, I mean, Khrushchev shouldn't have been sending it over to Cuba, but at least he had enough sense when he knew Kennedy meant business to turn the ships around. But it's -- you can't count on there being Kennedys and Khrushchevs all the time in charge of things. And the mistakes that are -- I see the mistakes that are made in business, they're human behavior where people act so contrary to their own long-range self-interests that humans are very familiar. We have a lot of frailties. You can even argue that if Hitler hadn't been so anti-Semitic, he could have kept a lot of scientists that might have gotten him to the atomic bomb before we did, but he was -- he drove out the best of his scientific minds and paid for it [ph].

Charles Thomas Munger
Vice Chairman

Imagine the guy stupid enough to think the way to improve science is to kick out all the Jews.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Humorous. One of the, I think, heroes of the 20th century may have been Leo Szilard. I mean Leo Szilard award isn't the guy that got Einstein to cosign an order to Roosevelt and say: One side or the other is going to get this, and we better get it first, basically. He said it much more elegantly than that. You can go to the Internet and look up the letter. But what -- we've both been good and we've been lucky. But if you remember, post-9/11, people started getting a few envelopes with anthrax, and they went to like the National Enquirer and Tom Brokaw and Tom Daschle, I can't remember. I mean, who knows what -- when you've got a mind that's going sends anthrax to people, how that decision-making is being made is just totally beyond comprehension. And that person did not end up doing a lot of damage, but the capability for damage is absolutely incredible. I don't know how Berkshire does anything about -- I don't know how to do it so I'm probably going to -- if I know how to do reduce the probabilities of a CNBC-type mass attack, if I knew how to reduce the probability by 5%, all my money would go to that, there's no question about that. Maybe 1%.

Charles Thomas Munger
Vice Chairman

But hasn't it been true that we haven't been very good at getting the government to follow any of our advice?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, but this one is important. Yes. Nobody argues with you about it, they just sort of throw up their hands. And some people work for a while on it and just get discouraged and quit. I was involved -- I forget the exact name of it, but their idea of -- it was a bunch of nuclear scientists. This was long ago, but their idea was to affect elections in small states, the theory being the government was the main instrument and you would have the maximum impact. And I just one after another people took it up and got discouraged. I don't think it's because we've got the wrong leaders or -- I think our leaders have been good on this. I think that I think that any candidate, well -- I do not worry about the fact that either Clinton or Trump would regard that as the paramount problem of their presidency. I just don't know if the offense can be ahead of the defense. And that's -- you can win the game 99.99% of the time, but eventually, anything that has any probability of happening will happen. Wish I could give you a better answer. What about you? Do you have anything?

Charles Thomas Munger
Vice Chairman

I have no hope of giving a better answer.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

That's what they all say to me. Jonathan?

Unknown Attendee

The Lubrizol lubricant additives business is one of your 6 largest noninsurance units, but there has been relatively little disclosure about its performance since it was acquired nearly 5 years ago. Can you please update us on how the core business has done, and how the competitive landscape and end markets have evolved since it was acquired? I know the core business is not a growth business, but has the increase in miles-driven helped your top line at all? Could you also talk about the performance of 1 or 2 of their more important bolt-on acquisitions, whether it'd be Chemtool, pipeline, flow improver company, Warwick, Weatherfield or Lipotec?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. The additive business, there's 4 companies in it basically. And it's a no-growth but very good business, and we're the leader. So it has performed almost exactly as you would anticipate since purchase. And other specialty companies have -- some of which have might have growth possibly, but they are small. So Lubrizol overall on an operational basis has been very much as we anticipated or you would have anticipated if you look at the prospectus at the time we bought it. They have made one large acquisition which was a big mistake, and that was in the oil field, a specialty chemical area, and was made just about the time that -- you know after that oil took a nosedive. So we've had some decent acquisitions there, but the biggest acquisition should not have been made. It is -- we still got the fundamental earning power of the additives business and everything, and that has not disappointed us in any way. It's a very well-oiled operation that way, but it's not a growth operation. Charlie?

Charles Thomas Munger
Vice Chairman

Nothing to add.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Station 10.

Unknown Attendee

Mr. Buffett and Mr. Munger. My name is Eric Silverbe[ph], a violinist based in New York City. The question for both of you is related to psychological biases. Through Berkshire Hathaway's operations, you have a very good read on the macroeconomic factors, yet Berkshire does not make investment decisions based upon macroeconomic factors. How do you control the effects of information, such as knowing macroeconomic factors or the anchoring effect of knowing stock prices? Because after a while, it's hard not to once you've analyzed them before. And how does that influence your rational decision-making, whether you should ignore it or whether you should try to use it in a positive way?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, Charlie and I are certainly -- we read a lot, so we -- and we're interested in economic matters, and political matters for that matter. And so we know a lot -- or we're familiar with a lot, I should say, with almost all of the macroeconomic factors. And it doesn't mean we know where they're going to lead. We don't know where the 0 interest rate is going to lead. But we do know what's going on if we don't know what is likely...

Charles Thomas Munger
Vice Chairman

Warren, there's a confusion here... that says microeconomic factors. We pay a lot of attention to those.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes.

Charles Thomas Munger
Vice Chairman

In term of what, macro, well, we don't know any more than anybody else.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, he summed it up. In terms of the businesses we buy -- and when we buy stocks, we look at it as buying businesses, so they are very similar decisions. We try to know all, or as many as we can all macroeconomic factors. We -- I like looking at the details of a business whether we buy it or not. I mean I just find it interesting to study the species, and that's the way you do study. And so I don't think there's any lack of interest in those factors or denying the importance of them. So am I getting it as a question or not, Charlie?

Charles Thomas Munger
Vice Chairman

Well, there hardly could be anything more important than the macroeconomics. That is business. Business and microeconomics is sort of the same term. Microeconomic is what we do and macroeconomics is what we put up with.

Unknown Attendee

Now the anchoring effect, I mean how do you deal with that as well?

Charles Thomas Munger
Vice Chairman

We're not anchored to what we're ignoring.

Unknown Attendee

I see.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

But we -- Charlie and I are the kind of that find it interesting, in every business, we like to look at micro factors. If we buy -- when we buy a See's Candy in 1972, there may have been 140 shops. There's something -- we'll look at the numbers on each one, and we'll watch them over time and we'll see how 1/3 of your shops behaved in the second year. We really like understanding businesses. It just -- it's interesting to us. And some of the information is very useful and some of it may look like it's not helpful, but who knows when some little fact stored at the back of your mind pops up and maybe does make a difference. So we are fortunate in that we're doing what we love doing. I mean, we love doing this like me watching baseball games, which I love to do, too. But they -- just the very act, every pitch is interesting and every moment when those guys -- a double steal is interesting or whatever may be. And so that's what our activity has been devoted to, and we talk about that sort of thing.

Charles Thomas Munger
Vice Chairman

We try to avoid the worst anchoring effect, which is always your previous conclusion. We really try and destroy our previous ideas.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Charlie says that, if you disagree with somebody, you want to be able to state their case better than they can.

Charles Thomas Munger
Vice Chairman

Absolutely.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. At that point, you've earned the right to disagree with them.

Charles Thomas Munger
Vice Chairman

Otherwise, you just keep quiet. It will do wonders for our politics if everybody followed my system. Okay. Becky?

Unknown Attendee

Warren, just a quick request. Could you please stop using CNBC as an acronym for mass destruction?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, if I use NBC's data. I've got a problem with Steve.

Unknown Attendee

This question comes from Matt Viangee [ph] in Dallas, Texas. He is asking about Seritage Growth Properties. He says, "in December 2015, you filed a personal 13G, evidencing a roughly 8% ownership position in real estate investment trust Seritage Growth Properties, which to my knowledge, is not paralleled as a Berkshire investment. Alternatively, in September 2015, Warren filed a personal 13G evidencing ownership in Phillips 66, which is paralleled as a Berkshire investment. My question is, how do you decide when making a personal investment for your own account versus an investment for Berkshire? I understand market cap and ownership sizing are the likely factors. But does it not still not behoove into investment the shareholders benefit a company like Seritage that might have significant upside? And where are you putting your personal money to work?"

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Right. I do not own a share, I never have a owned a share of Phillips 66. I'm not sure where that person -- what he is referring to. It may be that there is some way when the form is filled out that because I'm CEO of Berkshire that I have some line it imputes ownership to me or something. But the answer is I've never owned a share of Phillips. And Seritage is a real estate investment trust that had a total market value of under $2 billion when I bought it. And my situation is that I have about 1% of my net worth outside of Berkshire and 99% in it, and I can't be doing things that Berkshire does. So a Seritage, with a $2 million -- $2 billion market cap is not really something that is of Berkshire-size. Plus, we've never owned a real estate investment trust to my knowledge and my memory in Berkshire at all. I mean it's not just a -- so I could buy that and not have any worry about a conflict with Berkshire. As a practical matter, my best ideas are -- or I hope they are my best ideas, are off-limits for me because they go to Berkshire if they're sizable enough to have a significance to Berkshire. We will not be making investments -- unless it's something very odd, we will not be making investments in companies with a total market cap of a couple of billion of where our present size. But so every now and then, I see something that's sub-sized for Berkshire and I'll put that 1% of my net worth in, and the rest of the stuff is off-limits. Basically, unless Berkshire is all or done buying something and is it -- I own some wells a long, long time ago and Berkshire was not interested. I mean, we'd bought enough or something at the time, or maybe we didn't have money for investment. But I tried to stay away from anything that could conflict with Berkshire. And if I'd been buying Phillips when Berkshire was buying Phillips or when we -- or prior or subsequently, there could be a case where, okay, when we might have hit something. But the answer is I didn't buy any and I've never owned any. Charlie?

Charles Thomas Munger
Vice Chairman

Well, a part of being in a position like that, you don't really want a conflict of interest or even the appearance of it. And it's been 50 or 60 years. When have we embarrassed Berkshire by some of our side buying? Both of us have frankly nothing of significance in the total picture outside of Berkshire. I've got some Costco stock. I'm the director of Costco. Berkshire has got some Costco stock. There are 2 or 3 little overlaps like that. But basically, the Berkshire shareholders have more to worry about some conflict than Warren and I are going to give it. We're not going to do it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

It may sound a little crazy, and it's only because I can afford to say this, but I would much rather make money for Berkshire than for myself, not me. It does not make any difference to me anyway. I've got all the money I could possibly need and way more. And I've balanced my personality, everything is more wound up in how Berkshire does than I am myself, because I'm going to give it all away. So I know my end result is 0 and I don't want Berkshire's result to be 0, so I'm on Berkshire's side. Cliff?

Unknown Attendee

One of the great financial characteristics of Berkshire today is its awesome cash flow. Well, it's simple earnings, less CapEx, formula yields and annual free cash flow calculation, I figure of around $10 billion to $12 billion. In reality, it seems to be much higher, closer to $20 billion. And I think, in part due to changes in the deferred tax asset year to year. What is the outlook for free cash flow? And can investors continue to expect similar dynamics going forward?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. And there is a lot of deferred tax that's attributable to unrealized appreciation of securities. I don't have the figure, but let's just assume there are $60 billion of unrealized depreciation in securities, but then there will be $21 billion of deferred tax. That isn't really cash that's available, it's just an absence of cash that is going to be paid out until we sell those securities. Some arises through bonus depreciation. The railroad will have depreciation for tax purposes that's a fair amount higher than for old purposes. But overall, I think of primarily the cash flow of Berkshire as a practical matter relating to our net income, plus our increase in Twelve, assuming we have an increase. And over the years, Twelve has added $80-billion-plus to make available for investment beyond what our earnings have allowed for, and that's the huge element. We are going to spend more than our depreciation in our businesses, primarily being, #1, because of the -- one of the railroad in Berkshire Hathaway Energy are 2 entities that will spend quite a bit more than depreciation in all likelihood for a long, long, long time. And the other businesses, unless we get into inflationary conditions, it won't be a huge swing one way or the other. So our earnings is $17 billion, not counting capital gains, but our earnings, which were -- wherever they were, around $17 billion, plus our change in flow as the net no available cash, but of course, we can always sell securities and create additional cash. We can borrow money and create additional cash. But it's not a very complicated economic equation at Berkshire. People didn't, for a long time, they didn't appreciate the value of flow. We keep explaining it to them and I think they probably do now. The big thing, the goal, what Charlie and I think about, we want to add, every year, something to the normalized earning power per share of the company. And we think we can do it because we -- we should be able to do it, we have retained earnings to work with every year to get that job done. Sometimes, it doesn't look like we have accomplished much and we haven't accomplished much. In others, we -- something big happens. And we don't know ahead of time which year is going to be which. Charlie?

Charles Thomas Munger
Vice Chairman

Well, there are a very few companies that have ever been similarly advantaged. In the whole history of Berkshire Hathaway, we have lived in a torrent of money and we were constantly deploying it at disbursed assets, and we were rising up as we went along. That's a pretty good system. And so why -- we're not going to change it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

And there's a lot for a lot of mistakes. I mean that's the industry thing. American business has been good enough, that you don't have to be really smart to get a decent result. And if you can bring a little bit of intellect, then you should get a pretty good result.

Charles Thomas Munger
Vice Chairman

What you've got to do is be aversive to the standard stupidities. You just keep those out. You don't have to be smart.

Unknown Executive

Thank God.

Charles Thomas Munger
Vice Chairman

Thank God, right.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Section 11.

Unknown Attendee

Warren and Charlie, thank you so much for your generosity in sharing your life's accumulation of knowledge and financial capital for the purpose of humanity, thank you for that. And Berkshire's managers, thank you for building important companies and securing our financial futures. This is Bruce Wayne from Micro Chain[ph], traveling west from Orlando, Florida. Last year, you kind of shared with me the importance of getting the best reputation you can and behaving well. This year, I'd like to ask, and preface with, Bill Gates wrote. "Warren's gift is being able to think ahead of the crowd. It requires more than taking his aphorisms to heart to accomplish that, although Warren is full of aphorisms well worth taking to heart." And he also added that, "I have never met anyone who thought in business in such a clear way." Warren, what elusive, yet obvious to you, truth has allowed you to think ahead of the crowd and build a clear mental framework to produce a historically significant institution powerhouse brand? And Charlie, same to you, what obvious truth presents itself so clearly to you, but many would fervently disagree with you upon?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I think I've got the question. And I owe a great deal to Ben Graham in terms of learning on investing. And I learn I owe a great deal to Charlie in terms of learning a lot about business. And then I've also been around -- I mean I've spent a lifetime looking at businesses and why some work and why some don't work. And as Yogi Berra said, "You can see a lot just by observing." And that's pretty much what Charlie and I have been doing for a long time. And you do -- I mentioned pattern recognition earlier, there's new -- and I would say it's important to recognize what you can't do. So we have -- we may have tried the department store business and a few things, but we've generally tried to only swing at things in the strike zone, and our own particular strike zone. And everything has been much more complicated than that. You do not need -- you don't the IQ in the investment business that you need in certain activities in life. But you do have -- you do have to have emotional control. We see very smart people do very stupid things and it's fascinating how humans do that. Just take the people that get very rich and then leverage themselves up in some way that they lose everything. I mean, they are risking something that's important to them for something that isn't important to them. Well, you could say you could figure that one out in the first grade, but people do it time after time. And then you see that constantly, self-destructive behavior of once sort or another. I think we've probably -- and it doesn't take a genius to do it, but I think we've sort of avoided the self-destructive behavior. Charlie?

Charles Thomas Munger
Vice Chairman

Well, there's just a few simple tricks that work well, and frankly, you've got a temperament that has a combination of patience and opportunism in it. And I think that's largely inherited, although I suppose it can be learned to some extent. Then I think there's another factor that accounts for the fact that Berkshire has done so well as it has, is that we're really trying to behave well. And I had a great grandfather, when he died, the preacher gave a talk and he said: None envied this man's success so fairly won and wisely used. That's a very simple idea, and whether it's exactly what Berkshire is trying to do, there are a lot of people who make a lot of money and everybody hates them, and they don't admire the way they earn the money. And I'm not particularly admiring making money running gambling casinos, and we don't own any. And we've turned down businesses, including a big tobacco business. So I don't think Berkshire would work as well if we were just terribly shrewd, but didn't have a little bit of what the preacher said about my grandfather Am. We want to have people to think of us as having won fairly and used wisely. It works.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

We were very, very lucky to be born when we were and where we were. And I mean, we -- you could have dropped us at some other place and time or some other part of the world and things would've turned out...

Charles Thomas Munger
Vice Chairman

And think of how lucky you were to have your Uncle Fred. Warren had an uncle who's one of the finest men I ever knew. I used to work for him, too. A lot of people have terrible relatives.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

That's not an unimportant point. I would add just yesterday, we had a meeting of all my cousins and a whole bunch that we just get together, annual meeting time, there are probably 40 of us or 50 of us there, but -- and they were pulling out some old pictures. And 4 -- I have 4 aunts, they're all in these pictures. And every one of them, I mean, you were so lucky to have one like that and I had 4. I mean, they just were -- in every way, they reinforced a lot of things that needed some reinforcement, in my case...

Charles Thomas Munger
Vice Chairman

I wish you had a couple more.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes.

Charles Thomas Munger
Vice Chairman

We'd be doing even better.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

But mentioned my Uncle Fred, but my Aunt Katie worked in the store, too. My Aunt Alice worked at the store. And they just -- you just couldn't have been around better people. I think Charlie would agree with that.

Charles Thomas Munger
Vice Chairman

Yes. Well, we were very lucky.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, my grandfather was a little tough, however. Tell them what my grandfather used to do when he paid you on Saturday, Charlie.

Charles Thomas Munger
Vice Chairman

Well, that was very interesting. Warren's a Democrat but he came from different antecedents. I worked for his grandfather, Ernest, and he was earnest. And when they passed Social Security, which he disapproved of because he thought it reduced self-reliance, he paid me $2 for 10 hours worked, there were no minimum wage in those days on Saturday, and it was a hard 10 hours. At the end of the 10 hours, I came in and he made me give him $0.02, which was my contribution to Social Security. And he gave me 2, $1 bills and a long lecture about the evils of Democrats, and the welfare state, and a lack of self-reliance and then went on and on and on. So I had the right -- I had antecedents, too. I had Ernest Buffett telling me what to do.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Enough family history.

Charles Thomas Munger
Vice Chairman

I haven't overstated that, have I?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

No, you haven't overstated it at all. You can't believe what people -- and he thought he was doing his duty by the world to do that.

Charles Thomas Munger
Vice Chairman

But we were lucky then. The people we're around when we were very young, we're very lucky. Andrew?

Andrew Ross Sorkin

Warren and Charlie, you're famous for making a deal over a day or 2 with nothing more than a handshake. You pride yourself on the small overhead of doing the diligence mostly yourself. Other successful acquisitive companies use teams of internal people, outside bankers, consultants and lawyers, to do diligence often over many months to assess deals. Speed may be a competitive advantage. You've done some amazing deals, but does your diligence process also put us at greater risk? And if you're ever gone, how would you recommend Berkshire change how we approach dealmaking?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, I get that question fairly often, often from lawyers. In fact, our own -- we talked to them under Tolles, the law firm and that was one of the questions I got, why we didn't do more due diligence because we would have paid them by the hour for. It's interesting. The -- we made plenty of mistakes at acquisitions, plenty, and we made mistakes in not making acquisitions. But the mistakes are always about making an improper assessment of the economic conditions in the future of the industry or the company. They're not a bad lease. They're not a specific labor contract. They're not a questionable patent. They're not the things that are on the checklist for every acquisition by every major corporation in America. Those are not the things that count. What counts is whether you're wrong about whether you've really got to fix on the basic economics and how the industry is likely to develop, or whether Amazon's likely to kill them in a few years or that sort of thing. And we have not found a due diligence list that gets at what we think are the real risks when we buy a business. And like I said, we made -- we certainly made at least, oh, at least a half a dozen mistakes and probably a lot more if there's hitting the mistakes of omission. But none of those would've been cured by a lot more due diligence. They might have been cured by us being a little smarter. It isn't -- it just isn't the things the that are on the checklist that really count. Assessing whether a manager who I'm going to hand $1 billion to for his business and he is going to hand me a stock certificate, assessing whether he's going to behave differently in the future in running that business than he has in the past when he owned it, that's incredibly important, but there's no checklist in the world that's going to answer that. So if we thought there were items of due diligence, and usually there are a few of it that get covered, I mean, you want to make sure that they don't have twice as many shares out as you're buying or something of the sort. But if we thought there were things that we were missing that were of importance in assessing the future economic prospects of the business. We wouldn't, by all means, drove out on those. But the question of when we bought See's, it probably had 150 leases. When we buy Precision Castparts, they have 170 plants. There's going to be pollution problems at someplace, and those are -- that is not what determines whether a $32 billion acquisition is going to be -- look good 5 years from now or 10 years from now and we try to focus on those things. And I do think it probably facilitates things with at least certain people that our method of operation does cut down. You get into squabbles on small things. I've seen deals fall apart because people start arguing about some unimportant point, then their egos get involved and they draw lines in the sand and all of that. I think we gain a lot -- when we start to make a deal, it usually gets done. Charlie?

Charles Thomas Munger
Vice Chairman

Well, if you stop to think about business quality usually counts as something more than whether you crossed the T in some old lease or something. And the human quality of the management who are going to stay are very important. And how are you going to check that by due diligence? And I think -- I don't know anybody who's had a generally better record than Berkshire in judging business quality and the human quality of the people who are going to lead the business after it's acquired. And I don't know whether it improved at all while you're using some different method. So I think the answer is that, for us at least, we're doing it the way we should.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Negotiations that drag out, have a tendency -- they're more likely to blow up for some reason. I mean, people, they can get obstinate about very small points. And it's silly to be obstinate, but people get silly sometimes. So I like to keep things moving. I like to show to certain amount of trust in the other person, because usually trust comes back to you. But the truth is there's some bad apples out there and spotting them is not going to come from looking at documents, it's you really have to size up whether that person who's getting a lot of cash from you is going -- how they're going to behave in the future, because we're counting on them. And that assessment is as important as anything involved. We know all the figures and everything going in, and we know what we'll pay. And so we don't want things to get gummed up in negotiations. And I'm perfectly willing to lose small points here and then. If I have to deal in the right terms, I don't believe in making a -- and Tom Murphy taught me this, I mean, you just don't try to win every point. It's a terrible mistake. If you make of decent deal and if you find something of [indiscernible] in some way, that's okay. If you think it's bad faith and it's an indication of a character of the person you're dealing with, then you've got another problem and you're lucky if you find that out early. Charlie, any more?

Charles Thomas Munger
Vice Chairman

How many people in this room who are happily married carefully check their spouse's birth certificate and so on? My guess is that our methods are not so uncommon as they appear.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I'll think about that. Okay, Gregg?

Greggory Warren
Morningstar Inc., Research Division

Warren, the announcement earlier this month that Ajit Jain would be taking over responsibility for all of Berkshire's reinsurance efforts once Tad Montross retires from General Re has raised some questions about not only the change in leadership structure but succession planning. Given the state of the reinsurance market, it make sense to have Ajit overseeing both businesses, especially if the pricing environment is expected to be difficult for another 10 years. And there are duplicative efforts that can be streamlined. Given this move and the change in responsibilities we've seen at several Berkshire subsidiaries in the last few years, I was just wondering if you can give us some color on how succession planning is handled at the subsidiary level and any insight you can give us into what led you to finally decide to have Ajit overseeing both of Berkshire's reinsurance arms and whether or not it will change the amount of work he'll be doing on the specialty side of the business will be greatly appreciated.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. Well, Tad Montross, after 39 years, had done an absolutely exceptional job for Berkshire. Originally, Gen Re was a problem child for a while, as you know, and some brought on by itself and some external. But the -- and Tad is -- I mean, he's sensational. And I tried several times, maybe successfully in terms of months but not in terms of years, to get him to stay out longer. As you say, it makes sense to have the reinsurance operation under Ajit. Ajit's ability to handle more and more things than insurance, he oversees a company called GUARD, which most of you have never heard of and we bought it a few years ago, and it's doing terrifically. It's based in Wilkes-Barre, Pennsylvania, but it's doing a great job with small business policies, primarily workers' comp, around the country. And it's flourished being put under Ajit. He started the specialty operation a couple years ago, and under Peter, that's -- I mean, that is going gangbusters. And I have found -- and this is interesting, but it's true. I have found with really able people, they can handle so much. They almost -- well, just take Carrie Sova to put this meeting together. If you have some preconceived notion that an annual meeting that's going to have 40,000 people for an AGM to spend millions of dollars with all kinds of organizational planning, meetings and meetings, but really able people -- my assistant, Debbie Bosanek, she can do anything. So it -- there's just no limit to what talented people can accomplish. And if I had something else in insurance tomorrow that needed doing, I'd probably call Ajit on that, too. So it has no -- in terms of my succession, that's something -- we'll have a board meeting on Monday, but we'll talk about it as we always do at every meeting. And when we haven't -- our thoughts are as one on that and everybody knows why it makes the most sense. But 5 years from now, something different could make sense. Well, that's one reason for not announcing any names. I mean, who knows what happens in terms of the time when it happens or what happens to the person involved. Maybe their situation changes. So it's not a -- there are no tea leaves to read in the fact that Ajit is supervising Gen Re from this point forward. Charlie?

Charles Thomas Munger
Vice Chairman

Well, there's the adverse side of that. Not only can the able people usually do a lot more; but the unable people, by and large, you can't fix. So I think you're forced to use our system if you have your wits about you.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

And we don't feel the need to follow any kind of organizational common view as to, you do this, and you have only so many people can report to you or any of those sort of things. At Berkshire, every decision that comes up, we just try and figure out the most logical thing to do at that time. But we don't have some grand design in mind of -- like an army organizational chart or something of the sort, and we never will.

Charles Thomas Munger
Vice Chairman

Warren and I once reached a decision we wouldn't pay more than x dollars for something. And Ben, who was subordinate to both of us who was working on it just said: You guys are out of your minds. This is really stupid. This is a quality operation, you ought to pay up for it. We just looked at one another and did it his way. We don't pay any attention to titles.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

He was right, too.

Charles Thomas Munger
Vice Chairman

He was right, of course.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay.

Charles Thomas Munger
Vice Chairman

I'm sorry. If a charwoman gave us a good idea, we'd accepted it carefully.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Actually, one time, the woman that does clean my house came in and I think she'd been kind of wondering what I did based on -- and I'd see her frequently and her name was Ruby. And finally, one day, she decided to really get to the heart of the matter, and she said: Mr. Buffett, do you ever get any good horses? She apparently thought this was where I was really making my money, was at the track. Okay, Station 1.

Unknown Attendee

Hello, Mr. Buffett, Mr. Munger, Niraj [ph] Patel, Haverhill, Massachusetts. With Berkshire Hathaway being so well managed, why doesn't it have the highest credit bond rating?

Charles Thomas Munger
Vice Chairman

Let me take that one, okay? The rating agencies are wrong and set in their ways.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

And we don't fit their model very well.

Charles Thomas Munger
Vice Chairman

Yes.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I mean, we don't look like anything exactly they see otherwise.but that's the answer.

Charles Thomas Munger
Vice Chairman

But that's the answer.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes. And we -- I'll say this though. What I do, when they come in the door, I always say, let's talk AAAA, I believe, in starting a negotiation a step up. I never get any place. Okay, Carol.

Carol Loomis

Questions continue to come in about the financing and working relationship that Berkshire formed with 3G a couple years ago, and this is one of those questions. Well, 3G has been very successful in cutting costs and increasing margins at Kraft Heinz, the company has seen volumes and revenues decline. As a long-term investor, how do you judge when a management is cutting muscle as well as fat? Can a business increase revenues while cutting costs? And I forgot to say, this came from Rick Smith at New York City.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, the answer is yes, that sometimes you can cut costs that are a mistake to cut and you can -- and sometimes, you can keep costs that are a mistake to keep. Tom Murphy had the best approach. I mean, he never hired a person that he didn't need; and, therefore, they never had layoffs. And you might say that at headquarters at Berkshire, we've followed a similar approach. We would never -- we just don't -- we don't take on anybody. Now I think it is totally crazy when companies are in -- now if you're in a cyclical business, you may have to cut a workforce because there aren't as many carloads of freight moving or something like that, so you cut back on crane crews and all that. But the idea that you give up your staff, whatever it may be, economists or something like that because business has slowed down, if you didn't need them -- if you don't need them now, you didn't need them in the first place, you know? I mean, people that are there just because somebody started the department and they hired more people and so on, I would argue that since we've forgotten to insult this group so far, I would suggest that happens in Investor Relations departments perhaps or something of that sort, that you get people -- you get a department going and they're always going to want to expand. The ideal method is not to do it in the first place, but there are all kinds of American companies that are loaded with people that aren't really doing anything or are doing the wrong thing. And if you cut that out, it should not really have any significant effect on volume. And then if you cut out the wrong things, you can have a big effect. I mean, it can be done in a dumb way or a smart way. My impression for everything I've seen and I've seen a fair amount so far, is that 3G, in terms of the cost cuts that they made, have been extremely intelligent about it and have not done things that will cut volume. It is true that in the packaged goods industry, volume trends for everybody. Whether they're fat or lean in their operation, volume trends are not good. And the test will be over time, in 3, 5 years, are the operations which have had their costs cut, do they do poorer in terms of volume than the ones that, in my judgment, look very fat? So far, I see no evidence of that whatsoever. I do think at Kraft Heinz, for example, we've got certain lines that will decline in volume. I think we've got certain lines that will increase. But I think overall the packaged goods industry is not going to go any place in terms of physical volume and it may decline just a bit. I can't -- I've never seen anybody run anything more sensibly than 3G has in terms of taking over operations where costs were unnecessarily high and getting those costs under control in a hurry. And the volume question, we'll look at it as we go along. But believe me, I look at those figures every month and I look at everybody else's figures every month. And I try to -- I'm always looking for any signs of underperformance because of any decisions made, and I've seen none. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, and sometimes when you reduce volume, it's very intelligent because you're losing money on the volume you're discarding. It's quite common for a business, not only they have more employees than it needs but sometimes there's 2 or 3 customers that they'd be better off without. So it's hard to judge from outside whether things are good or bad just because volume is going up or down a little. Generally speaking, I think the lightly [ph] staffed companies do better at everything than the ones that are overstaffed. I think overstaffing is like getting to weigh of 400 pounds when you're a normal person. It's not a plus.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, sloppy thinking in one area probably indicates there may well be sloppy thinking elsewhere. I have been a director of 19 public corporations, and I've seen some very sloppy operations and I've seen a few really outstanding business operators, and there's a huge, huge difference. If you have a wonderful business, you can get away with being sloppy. We can be wasting $1 billion a year at Berkshire, the $650 million after tax, that will be 4% of earnings, and maybe you wouldn't notice it.

Charles Thomas Munger
Vice Chairman

I would.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

It grows and Charlie would know this. But it's the really prosperous companies that some -- well, the classic cases, I think, were the tobacco companies many years ago. I mean, they went off into this thing and that thing and it was practically play money because it was so easy to make and it didn't require good management. And they took advantage of that fact. You can read about some of that in Barbarians At The Gate. Okay, Jonathan?

Jonathan Brandt

Berkshire paid $4.1 billion for Van Tuyl's auto retailing business and consolidated its earnings for nearly 10 months last year. Given prevailing acquisition multiples in the industry and margins and the record level of retail auto sales, it seems that the acquisition should have contributed more to Berkshire's bottom line in 2015 than it seemed to, although it's hard to tell for sure since its results were lumped in with those of the German motorcycle apparel acquisition, which was only owned for a part of the year also. I understand that the tax-deductible intangibles reduced the effect of purchase price of Van Tuyl, but I still wonder whether there were any onetime charges or whether profits from insurance and finance operations could have been recorded somewhere other than in the retail segment. I imagine Berkshire is earning a better return on the acquisition than is so far apparent, but I wonder if you could explain the difference between the likely economics of the deal and what I infer from the annual report figures?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, well, you're right about it. It is better than it looks. For one thing, we had $1 billion of securities, roughly, with the 4.1n. Those securities were basically carrying at 0.25%. So -- but that $1 billion is available to us and that came with the deal. There are some very significant acquisition accounting charges that will continue for a couple of years, and that I'm happy to have taken that way. The economics of Van Tuyl, I would say, have worked out almost exactly as I -- if you had me a year ago lay out a projection, I don't do it. But if I had, it would look very much like things have turned out. And you have Rachor, who runs that operation, is -- really fits the Berkshire mold. I mean, we've got a first-class CEO there. But take $1 billion off the purchase price, just for openers, and then there are some amortization charges of items that are allowable that make you correctly see a fairly low figure against what it appears the acquisition price was. So far, it's exactly on schedule and the schedule was perfectly satisfactory. Okay, Station 2? We haven't -- incidentally, we haven't had much luck so far in acquiring other auto dealerships based on the same metrics that we bought Van Tuyl. And I think to a small degree, that's because people think we paid more for Van Tuyl than we did. They're not seeing certain factors and so they think we paid x and therefore they're entitled to x. And we didn't pay x so we've bought very little so far. I hope that changes in the future, but we're not going to change -- we're not going to change our metrics in terms of how we value auto dealerships. Okay, Station 2?

Unknown Attendee

I'm John Gory [ph] from Iowa City, Iowa. When interest rates go from 0 to negative in a country, how does that change the way that you value a company or a stock? Do you choose a high valuation because the discount rate is low? Or on the other hand, do you choose a low valuation because the cash flow's likely to be poor?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, going from -- which we haven't done in this country yet, but going from 0 to minus 0.5 is really no different than going from 4 to 3.5. I mean, it has a different feel to it, obviously, if you have to pay a

0.5 point to somebody. But if you have your yield -- or your base rate reduced by 0.5 point, it's of some significance but it isn't dramatic. What's dramatic is interest rates being where they are, generally. I mean whether it's 0 plus 0.25, minus 0.25, plus 0.5, minus 0.5, we're dealing with a situation that's essentially very close to 0 interest rates and we have been for a long time and longer than I would've anticipated. The nature of it is that you'll pay more for a business when interest rates are 0 than if they were like 15% when Rachor was around and you can take that up and down the line. I mean, we don't get too exact about it because it isn't that exact a science. But very cheap money makes me pay a little more for businesses than when money was at what we previously thought was normal rates; and very tight money would cause me to pay somewhat less. I mean, we had a rule for 2,600 years that -- Aesop lived around 600 B.C. but he didn't happen to know what was B.C. but he can't know everything. And it was that a bird in the hand is worth 2 in the bush. But a bird in the hand now is worth about 9/10 of a bird in the bush in Europe, because it depends on how far out of the bush it is. It keeps getting worth less as you go along. So these are very unusual times that way. And if you ask me whether I paid a little more for Precision Castparts because interest rates are around 0 than if they've been 6%, the answer is yes, I try not to pay too much more but it has an effect. And if interest rates continue at this rate for a long time, if people ever really start thinking something close to this as normal, that will have an enormous effect on asset values. It already has some effect. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, I don't think anybody really knows much about negative interest rates. We've never had them before, and we never had periods of stasis like -- except for the great depression. We didn't have things like happened in Japan, great modern nation playing a whole -- monetary tricks, [indiscernible] tricks, [indiscernible] tricks and mired in stasis for 25 years. And none of the great economists who studied their stuff and taught them to our children, understand it either. So we just do the best we can.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

And they still don't understand it.

Charles Thomas Munger
Vice Chairman

No, and our advantage is that we know we don't understand it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

It's interesting though. I mean, we are -- it makes for a interesting movie. It -- and it does modestly affect what we pay for businesses, whether -- I don't think anybody expected it to last this long. Did you, Charlie?

Charles Thomas Munger
Vice Chairman

I don't think I didn't -- everybody who's not confused haven't thought about it correctly.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I thought about it correctly then. Becky?

Becky Quick

Warren, in the past, you've talked about GEICO working with IBM's Watson.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes.

Becky Quick

And this shareholder, Guellermo Bermuda [ph] writes in, wants to know would IBM be able to offer insurance industry competitors of GEICO the solutions developed with GEICO help and expense. I would think that there would confidentiality provisions to protect GEICO because, in as much as GEICO educates IBM as to insurance issues, GEICO could lead to Japanese competitor's gaining or equaling its advantage if they purchase solutions jointly developed by GEICO and IBM.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, I would say the answer to that is that both parties have thought about that matter, and very intensive and extensively, and neither will be in a position to talk about it. I don't like to not answer any question, but there's some things that it doesn't pay to answer. Am I right, Charlie?

Charles Thomas Munger
Vice Chairman

Yes. Of course, you're right.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I like that. Cliff?

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

You long stressed the importance of taking a long-term view in investing. Over the decades, your substantial returns in American Express seem to support your point. You've talked in the past about the ability of American Express to reinvent itself over time. But today, it seems to be a company that doesn't have alternative businesses, and its brand doesn't seem to have kind of the same cache as it once did. Shouldn't a prudent investor, shouldn't Berkshire, periodically reassess its reasons for owning an investment?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, we reassess our reasons for owning all investments on almost a continuous basis. And both Charlie and I do that, and we're usually in a general range of an agreement, but sometimes we are a fair distance apart perhaps. There's no question that payments are an area of intense interest to a lot of very smart people, who've got lots of resources and...

Charles Thomas Munger
Vice Chairman

And forever change.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, and forever change. And it will change. And I personally feel okay about American Express. We -- and I'm happy to own it. I think -- but their position has been under attack for decades, more intensively later -- lately, and it will continue to be under attack. I mean, it's too big a business and it's too interesting a business and it could be too attractive a business for people to ignore it. And it plays to the talents of some very smart people. I mean, it's a natural that a great many organizations that are really quite able think about it. And it's big. So...

Charles Thomas Munger
Vice Chairman

A lot of great businesses aren't quite so great as they used to be. The packaged good business, the Proctor & Gambles, so forth, the General Mills, they're all weaker than they used to be at their peak. And...

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

And the auto companies, I mean...

Charles Thomas Munger
Vice Chairman

Auto companies, oh my god, when I think of the power of General Motors when I was young, and what happened to them? They wiped out all the shareholders. I would no more have predicted that. When I was young General Motors loomed over the economy like a Colossus. It looked totally invincible. Torrents of cash, torrents of everything.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

They like to hold down market share.

Charles Thomas Munger
Vice Chairman

Yes, because they -- yes, they were afraid they'd be too monopolistic. Yes, so the world changes and we can't make a portfolio and change every time something is a little less advantaged than it used to be.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

But you have to be...

Charles Thomas Munger
Vice Chairman

Alert.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Thinking all the time There's been someone who might be changing the game in a big way. And that's not only true for American Express, that's true for other things we own, including things we own 100% of. And we'll be wrong sometimes. We'll be late sometimes, we'll be wrong sometimes, but we'll be right sometimes, too. And -- but it's not that we're not cognizant of threats. But assessing the probabilities of those threats being a minor problem or a major problem or a life-threatening problem is a tough game, but that's what makes our job interesting.

Charles Thomas Munger
Vice Chairman

I think anybody in payments probably, who's an established long-time player with an old method, has more danger than -- just to exist. It's just, there's more fluidity in them.

Charles Thomas Munger
Vice Chairman

Okay, Station 3.

Unknown Attendee

Mr. Buffett, Mr. Munger, I'm from Flagstaff, Arizona. My name is Mick Kelly [ph]. My family runs cattle ranches down in Arizona, and that's kind of what my question pertains to. I'm curious on your thoughts as it relates to expanding global population and investing in cattle and if you think it's wise.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Charlie?

Charles Thomas Munger
Vice Chairman

I think it's one of the worst business I can imagine for somebody like us. There's nothing personal about this. I mean, yes, not only is it a bad business, but we have no aptitude for it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Some people have done well in it, Charlie.

Charles Thomas Munger
Vice Chairman

Well, I -- yes, they have 1 good year every 20 years or something.

Unknown Attendee

I know you guys like steak.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Very much.

Charles Thomas Munger
Vice Chairman

But not owning cattle.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, and actually, I know a few people that have done reasonably well in cattle, but they usually own banks on the side or something of the sort. But I wish you the best in it, yes. And I'm in Kiewit Plaza if you want to send anything on.

Charles Thomas Munger
Vice Chairman

Somebody has to occupy the tough niches of the economy.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

We need you.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Andrew?

Andrew Ross Sorkin

Warren and Charlie, well, the first part's for Charlie, the second part's for Warren. Charlie, you clearly understand the power of incentives. How do you apply this at Berkshire when designing compensation formula? Without naming names or dollar amounts, please illustrate for us with examples, of a couple of examples of how Berkshire's operating managers get paid for performance in different industries. The second part is for Warren, which is: You once said you'd write about how we should compensate the next Berkshire CEO. Can you describe exactly how we should do it now?

Charles Thomas Munger
Vice Chairman

Well, I wouldn't worry about the next CEO. But the -- when it comes to incentives, our incentive systems are different, and what they try and adapt to is the reality of each situation. And the basic rule on incentives is you get what you reward for. So if you have a dumb incentive system, you get dumb outcomes. And one of our really interesting incentive systems is at GEICO, and I'll let Warren explain it to you because we don't have a normal profits-type incentive for the people at GEICO. Warren, tell them, because it's really interesting.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, at GEICO, we have 2 variables, and they apply to well over 20,000 people. I think you have to be there a year, but beyond that point, anybody who's been there a year or more -- and I could be wrong on the exact period -- is subject and knows, understands that these 2 variables will determine bonus compensation. And as you go up the ladder, it has a multiplier effect. It's still the same 2 variables but it gets to be larger and larger in terms of bonus compensation as a percentage of your base. But it's always significant. It's always significant. Most of the variables are very simple: I care about growing the business; and I care about growing it with profitable business. So we have a grid, which consists of growth in policies-in-force on one axis, not gross in dollars because that's reflected by average premiums, which are outside their control, but growth in policies-in-force; and then on the other grid, we have the profitability of seasoned business. It costs a lot of money to put business on the books. I mean, we spend a lot of money on advertising and all that. So the first year, any business we put on the books is going to reduce profit significantly. And I don't want people to be worried about the profit if it's going -- that might be impaired by growing the business fast. So profit of seasoned business, growth of policies-in-force. Very simple. We've used it since 1995. We put a tiny little tweak or two in for new businesses or something of the sort, but it's overwhelmingly a simple system. Everybody understands it. In February or so, it's a big day when it's the 2 variables are announced and people figure out how they come out on it, and it totally aligns the goals of the organization in terms of compensation with the goals of the owner, and that's a simple one. The interesting thing about...

Charles Thomas Munger
Vice Chairman

It's simple but other people might reward something like just profits, and so the people don't take on new business when they should take it on because it hurts profits. You see, you've got to think these things through, and of course, Warren's good at that. And so is Tony Nicely.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, and just thinking about -- somebody comes and says, "Well, you reward profits." We don't want to reward profits alone. It'd be the dumbest thing you can do. You just quit advertising and start shrinking the business a little. That's a -- and like I say, people there know that the very top person is getting paid based on those same 2 variables, right? So that they don't think that the guys at the top have got a cushy deal compared them and all that. It's just a very logical system. The interesting thing, and I'll get to your second thing in a -- the second question in a minute. But the interesting thing is, is that if we brought in a compensation consultant, then we start coming up with plans that would be designed for all of Berkshire and get us all pulling together...

Charles Thomas Munger

Vice Chairman

There may be an undertaking power. God knows where they'd get the plan.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

The idea of having a -- sort of a coordinated arrangement for incentive compensation across 70 or 80 businesses or whatever, I mean, it's just totally nuts. And yet, I would get -- almost guarantee you that if we brought in somebody, they would be thinking in terms of some master plan or some plans and all this kind of thing, and explain it with all kinds of objectives. We try to figure out what makes sense in each business we're in. There's some businesses where the top person is enormously important. There are some businesses where the business itself dominates the nature, the result. We try to design a plan that makes sense. In certain cases, I asked one fellow who came to work for us that was selling his business. The day I met him, he came to the office and he had a business he wanted to sell, but he also want to keep running it. And I made a deal with him on it. And then I said, "Tell me what the compensation plan should be." And he said, well, he said, "I thought you told me that." I said, "No," I said, "I don't want a guy working for me that has a plan that he thinks doesn't make sense, or that he's unhappy with it or chewing at him or he's complaining to his wife about it, whatever it may be. Tell me what makes sense." And he told me what made sense and it made sense, and we've been using it ever since. Never changed a word. We have so many different kinds of businesses. Some are very tough businesses, some of them are very easy businesses. Some of them were capital-intensive. Some of them don't take capital. Some -- I mean, they just go up and down the line and I think that you'll have a simple formula that can be sort of stamped out for the whole place and then with some overall stuff for corporate results on top of it, you'd be wasting a lot of money, and you'd be misdirecting the incentives. So we think it through one at a time and it seems to work out pretty well. In terms of the person who succeeds me, it's true, I have sent a memo to -- I think I sent 2 memos to the board with some thoughts on that. Maybe I'll send a third one, but I don't think it would be wise to disclose exactly what's in those letters. But it's the same principle as I've just gotten through describing.

Charles Thomas Munger
Vice Chairman

And he wanted more bad examples. A lot of the bad examples of incentives come from banking and investment banking. And if you reward somebody with some share of the profits, and the profits are being reported using accounting practices, that cause profits to exist on paper that are not really happening in terms of underlying economics, then people are doing the wrong thing and it's endangering the bank and hurting the country, and everything else. And that was a major part of the cause of the great financial crisis is that the banks were reporting a lot of income they weren't making and the investment banks were, too. The accounting allowed for a long time a lender to use his -- as his bad debt provision his previous historical loss rate. So an idiot could make a lot of money by just making way gamier loans on high interest and accruing a lot of interest and saying, "I'm not going to lose any more money on these because I didn't lose money on different loans in the past." That was insane for the accountants to allow that. Literally insane, that's not too strong a word. And yet nobody's ashamed of it. I've never met an accountant that's ashamed of it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yet another thing, a possibility is when you get the very chief executive and -- who wants an enormous payoff for himself and to justify it, designs a pyramid so that a whole bunch of other people down the line get overpaid in some relation or get paid in some relation to something he had no control over just so it doesn't look like he's all by himself in terms of that fantastic payoff he's arranged for himself. There's a lot of misbehavior. And we saw it in pricing of stock options. I mean people that -- I'd literally would hear conversations in the boardroom where they hoped they were issuing the options at a terribly low price. Well, if you get enough people interested in having options issued at a terribly low price, they may occasionally do something that might cause that. And it certainly -- what could be dumber than a company looking for a way to issue shares at the lowest price? But it -- compensation isn't as complicated as the world will like to make it. But that's -- if you were a consultant, you'd want to make people think it's very complicated, and that only you can solve through this terrible problem for them that couldn't solve.

Charles Thomas Munger
Vice Chairman

We want it simple and right. And we don't want to reward where we don't want. If you have, those of you with children, just imagine how your household would work if you constantly rewarded every child for bad behavior. That house would be ungovernable in short order.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay, great.

Unknown Attendee

During the past several years, Burlington Northern spent more than just about every railroad on capital expenditures. While the company reduced its CapEx budget from $5.7 billion during 2015 to $4.3 billion this year, it still represents around 20% of annual revenue, which we believe is at least the bare minimum for most railroads to continue to invest indefinitely. Other than maintenance CapEx, which is likely to account for around 60% of that total, what do you believe are the most likely additional investment opportunities for BNSF, realizing that the secular decline in coal, which has accelerated of late, and the complicated nature of crude oil shipments, where BNSF has already invested heavily in the past few years, are likely to push it more towards other parts of the business?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, as I mentioned in the annual report, in the case of all railroads, merely spending their depreciation expense will not keep them in the same place. So depreciation is an inadequate measure of the actual steady-state capital expenditure needs of a railroad, even in these fairly inflationary ways. And that's an important consideration in buying the business. We knew that going in, and it's been reinforced since. We spent a lot of money in 2015 because we had a lot of problems to correct, and that was when we spent the $5.7 billion. I would say that the true maintenance CapEx, looking at $4.3 billion, is higher than 60% of that number when you really evaluate keeping the railroad in competitive shape to do just the same volume as it would be doing the year before. So it -- there is an additional expense at BNSF that is not reflected in the figures. There -- we also have a lot of intangible expenses with some other businesses that aren't real expenses. I mean, overall, I think that Berkshire's figures actually are on the conservative side in relation to real economic earnings, but that's not true at any railroad. We've also had something called positive train control, which amounts to a lot of money for the industry. I think we may be a little further along than most of them, I think. But that's $200 million or $300 million a year and maybe would be close to $2 billion or something like that in aggregate. So it is a very capital-intensive business we run at the BNSF. We run far more in revenue ton miles than any other railroad in North America, and that has obviously some -- it is a factor on capital expenditures. But I would say that it's very likely that we will spend more than depreciation, unfortunately quite a bit more than depreciation, to stay in the same place for a long, long time, as will other railroads. And that's a negative in the picture. We will always be looking for ways to use capital expenditure money to develop additional business, and we get that opportunity regularly. It's just a question of the size of it and we did a lot of that in the Bakken and we reckon we got benefits from it. We're not getting benefits as much as we thought we would at this point when the price of oil has fallen off, but that was very sensible capital expenditure. And I hope we get the opportunity to do more. What's happening in coal with the decline? I mean, that doesn't really have anything to do with our overall capital expenditure budget, except we won't be spending a whole lot of money that we spend in that arena. Does that answer your question okay?

Unknown Attendee

Well, I was just thinking maybe with intermodal [ph] as well, if that's the longer-term opportunity to invest more heavily there.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, we're always open to it, but we wouldn't want -- you have to see a fair amount of revenue coming from -- we had a proposition very recently, which we worked on for many, many years, in terms of making the port [indiscernible] considerably more efficient. And we spent a lot of money on that and spent a lot of time and we will spend a lot more money, a whole lot more money, if it had been approved. And recently, a court came out with the decision that was negative on it. And whether that kills the chance to do that or we look someplace else, we'll have to look at the situation.

Charles Thomas Munger
Vice Chairman

Our competitors there pretend to be environmentalists. It's a common practice now.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, in any event, why wouldn't you? We thought we had something that made a lot of sense for both the area and for the transportation system in the country. And but...

Charles Thomas Munger
Vice Chairman

We were trying to do the right thing and so far, we've lost.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

But we're still willing to spend a lot of money...

Charles Thomas Munger
Vice Chairman

Yes.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

If we can find things that make the railroad more efficient or make it larger, I mean, either way. Okay, Section 4.

Unknown Attendee

My name is Marcus Douglas [ph]. I'm an investment adviser from Houston, Texas. Where I'm from, there are a lot of people losing their jobs, mostly due to the sharp decline of crude oil prices. My question pertains to the overall state of the union, more so than my dear city. Keeping in mind that crude oil is primarily bought and sold in American dollars, do either of you believe the major fluctuations in the supply of crude oil influence the future monetary policy decisions?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, that's yours, Charlie?

Charles Thomas Munger
Vice Chairman

Well, my answer would be, not much.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, it's an important industry, obviously, and the decline in the price of oil has had a lot of effects. Very good for the consumer, millions in -- well, hundreds and millions of consumers, and very bad for certain of the businesses, like the one we bought in Lubrizol, and some others to a degree. Net, it should be good for the United States overall, that low prices for oil. We're a net oil importer. I mean, just like it's good for the United States to have low prices for bananas. We're a banana importer. That anything we net buy is a plus when prices fall. But then oil is big enough and extends into so many areas that it also hurts plenty when the price of oil falls, and it particularly hurts capital value. So the value -- the consumer gets the benefit when he or she goes to the filling station every 2 or 3 weeks or something like that and it comes in relatively small increments. The capital value contraction hits you, if you project out lower-priced oil for a while, hits immediately. I mean, an oilfield that was worth x may be worth 1/2 x or 1/3 of x or no x overnight, and so there are certain big factors. In terms of our chemical operations, people just stop ordering. So you have this big impact on capital values immediately and you have the benefits move in over time. But net, the United States is better off and Saudi Arabia is worse off when prices of oil are lower. It's a -- oil is a big part of the economy, but our economy has continued to make progress overall during the oil price decline. But obviously, different regions suffer disproportionately, just like they boomed -- they got a real boom in during the period when it was at $100 and then when fracking in big time. Charlie?

Charles Thomas Munger
Vice Chairman

I think that will do it for this subject.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay, Carol.

Carol Loomis

The question is from Larry Lebovitz [ph] of Boston. The year-end balance sheet for manufacturing service and retailing operations shows total current assets at $28.6 billion, of which cash and equivalents are $6.8 billion. Meanwhile, total current liabilities are at $12.7 billion, implying networking capital of $15.9 billion. It has become increasingly common for companies like Apple and Dell to finance their business via their suppliers, in some cases with negative working capital. Why is it necessary for these Berkshire businesses to have so much working capital, particularly so much cash? More generally, how do you think about efficiently managing the working capital of a business segment so large, sprawling and decentralized as this one?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, well, we have excess cash everyplace at Berkshire. So we don't -- at present, it really doesn't make any business whether we have it at certain subsidiaries or other subsidiaries. So we do not -- we have excess cash. As I've pointed out in the past. We'll never go lower than $20 billion in cash, and we'll actually stay comfortably above it. But allowing for the preferred that's going to [indiscernible] at times will be again over $60 billion of consolidated cash. But we don't really worry much about what pocket it's in. It's not making anything anyway at these levels. Now if rates move higher, we've actually got the mechanics in process to do sweep accounts and that sort of thing, which -- so I would pay no attention to the particular cash that's being held in that category there. The cash in Berkshire Hathaway Energy, the cash in the railroad, we have independent levels that we don't guarantee their debt. And they run with ample cash and we would not look at sweeping that down to a minimum. But if you talk about 40 or 50 of our miscellaneous subsidiaries, we will go to a sweep count when rates get -- really makes any difference to do it. But now when you're getting 0, it doesn't much difference where you get 0. So I think the fellow's overanalyzed it a little bit and but I understand why he did it.

Charles Thomas Munger
Vice Chairman

One important idea is, why don't we imitate some of these people and pay our suppliers a lot more slowly, so we have more working capital?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, well, that's a big thing in business now. And last year, Walmart, for example, went to almost all their suppliers, as I understand, and certainly, to the companies that we supply, and they basically had a list of half a dozen things that they wanted present suppliers to agree to. And one of those things was more extended terms, and each of our companies made their own decisions, but my guess is they got more extended terms from most of their suppliers, maybe a very high percentage of their suppliers, and they have gone from -- I don't remember the exact request, but they have -- they went from 30 to 60 days or what it was, but they got a meaningful extension. So you will, in a couple years or a year, it takes time to implement, you'll see higher payables relative to sales at Walmart than you saw a year or 2 ago. And they're under a lot of pleasure competing with Amazon and others, and that's one of the ways that they expressed it. And I've seen it in other places, and it's conceivable that one of our subsidiaries might deem it wise to do it, but I don't think they will. I mean, I think that the pressure for cash at Berkshire is not that high and I think that the pressure for -- or the desire for great relations with suppliers is will probably overcome, in most of our managers' minds, any desire to start extending terms.

Charles Thomas Munger
Vice Chairman

Yes, I think it's harder to do that brutally when you're rich and your supplier isn't, and think that your suppliers' going to love you. And so I think there's something to be said for leaning over backward to have a win-win relationship with both suppliers and customers always.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

It's never been pushed at -- you can argue we got a pretty good thing going in float anyway. So...

Charles Thomas Munger
Vice Chairman

Yes, and we don't need it. Let somebody else set the record on that one.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay, Jonny [ph]?

Jonathan Brandt

Most American corporations separate out supposedly one-time restructuring costs, whereas Berkshire doesn't. Berkshire's reported operating earnings are, therefore, in my opinion, of higher quality. Have you ever calculated how much higher operating earnings on average would be if Berkshire separated out plant closing costs, product line exits, severance pay and similar items? Is it a material number? Or does Berkshire not incur much in the way of these types of costs typically because most of your acquisitions are standalone?

Charles Thomas Munger
Vice Chairman

Let me take that one. That's a question like asking, why don't you kill your mother to get the insurance money. We don't do it. We're not interested in manipulating those numbers, and we haven't had a restructuring charge ever, and I don't think we're about to start.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, I would say this too, Jonny [ph]. We don't do that. The numbers would not be huge. There could be a year, I suppose, when they might be for some reason, but they are more conservatively stated than most companies, and I think they're of higher quality. But I'd point it out, also, that I think that our depreciation expense at the railroad, which is standard and which all the other railroads use, is inadequate as a measure of true operating earnings. But that's...

Charles Thomas Munger
Vice Chairman

And you're talking about -- we like to advertise our defects. Not all of them...

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

There's no question that we -- I think we will have more amortization of certain intangibles in our -- which reduce earnings and reported earnings, but which in reality are not expenses. We'll have more of that than some companies, and I've pointed that out. I haven't -- I never want to report one of these things where I will withhold adjusted earnings, say -- and say, "This is what you're supposed to pay attention to." Because every one of those I've seen virtually results in some inflation of figures. And things are good enough at Berkshire. We don't need to inflate the figures. Okay, station 5.

Unknown Attendee

This is Martin Collin Burn [ph]. I'm from Germany. I'm a fixed income manager. We launched a, with Henry Lieber [ph] a fund and...

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

You have my sympathy.

Unknown Attendee

Yes, yes. The volume is about 600 million, 650 million. We are 4.1% ahead this year. Obviously my question is about fixed income. If I look in your annual report, it's about a volume of $25 billion. And if I add, let's say, the CDS, you're selling the CDS and it's about a volume of $7 billion or $8 billion. So my concrete question is, the premium on your CDS is about 31 basis points at the end of the year. So mark-to-market, it's probably at the high-teens or 20s. So would you consider to unwind this position? Are you allowed to do it, and in the annual [ph] you say no? But probably, you can make exemplary contrary trade on it. That means you are buying protection. Is that a philosophy which you stand behind? Could you do that from the [indiscernible] point of view when the premiums are extremely low, which is isn't the case, that the spreads as I see it between 15 and 20 basis points? Can either of you...

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

That sounds like the line for you. I think he was referring to -- we have one position left over from 6 or 7 years ago or thereabouts that involves us selling protection on zero-coupon municipal bonds with a nominal value -- maturity value which is, since they're zero coupons, is far off and not present valued at all, I think $7.7 billion or something like that. And we're just sitting with that position because we like the position. And the gentleman mentions that our CDS is -- that's an insurance premium against our debt that people buy. A, there's a fair amount of activity in it from time to time, and I think that's partially caused by the fact that we neither collateralize that municipal contract that he refers to, but we don't collateralize with minor exceptions the equity puts that are still out there. So the counter-parties have to buy -- I believe this is the case. I think the counter-parties have to buy protection on Berkshire's credit through CDSs. Now the people they buy it from, their credit probably isn't good as Berkshire's. So I mean I think -- but it's probably in an internal rule of some of these firms that are on the other side of the contract. And so -- but that really doesn't make any difference to us. Back in 2008 and '09, our CDS prices went up to a crazy level, and I even commented here at the annual meeting that I would love to be selling them myself, except I wasn't allowed to. But what goes on in the CDS market really isn't of any particular interest to us. And it's too bad for the other guys, they didn't get collateral from us, and we wouldn't have given it to them. And somebody had to buy these things, that, like I say, from our standpoint, they're wasting their money, but they probably have internal rules that make them. I think I've addressed your question but, Charlie, do you think I've addressed this question?

Charles Thomas Munger
Vice Chairman

Well, the truth of the matter is that we don't pay much attention trying to get an extra 2 basis points by being gamey on short-term things. And that credit default position is a weird historical accident, and we don't pay much attention to it either. It'll go away in due course.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, all of our contracts are just going to expire. We're not -- now we use a few operational contracts in our energy company. I think it's a couple places where they, for their own reasons and sometimes because the utility commissions want them to, they do certain things. But it's peanuts, and the positions that I instituted 6 or 7 years ago are basically all in a run-off position. And the first big run-offs will be in 2018, in a couple of years.

Charles Thomas Munger
Vice Chairman

We're basically not in that. We don't float around with our credit deposit swaps at all, no.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

No, never, no. But I would have liked to have sold them in 2008. They actually got a big war bang [ph]...

Charles Thomas Munger
Vice Chairman

I know. It was crazy.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

500 basis -- 5% in terms of betting that Berkshire would go broke, which was totally crazy. But I couldn't take advantage of it. I wanted to though. Becky?

Becky Quick

This question comes from Tom Hensley [ph], a longtime shareholder from Houston, Texas, who says, over the years, you've been effusive in your praise of Ajit Jain and his contributions to Berkshire. In the 2009 chairman's letter, you wrote, "If Charlie, Ajit and I are ever sinking in a boat, and you can only save one of us, swim to Ajit." My question is, what if we don't get to Ajit in time? Please comment on the impact on national indemnity in Berkshire and whether or not there's another Ajit in the house?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

There's not another Ajit in the house. I didn't hear the part immediately before it -- when you were -- but there is not another Ajit in the house.

Becky Quick

The impact on national indemnity, I guess the impact on the insurance companies as a result.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

If we lost him? Yes, I would be very significant. And that would be true of some other managers in some other situations [ph]. But it's quite dramatic with Ajit's operation because literally, we're a few years when we had like 25 or so or 30 people where that operation, it was an unusual period at the end, but where it's earning potential under Ajit was fantastic. That probably won't happen to that [indiscernible] again. Wish it would. But he's done a tremendous amount for Berkshire. But I could -- I mean, start with Tony. There have been a lot of managers that have created billions and billions of dollars of value for Berkshire. I mean, and maybe you can get into the tens of billions. It's having a fantastic manager that has a large business, potential business available to them and who makes the most of it, it's huge over time. You don't see it necessarily in a week or month or anything of the sort. But when you're building capital value -- I mean, think of the value of Jeff Bezos to Amazon. I mean, it wouldn't have happened without him, and then you're looking at huge values. And I can name other situations. The value of Tom Murphy and Dan Burke was the difference between zero, and what they ended up with? I mean, they built that thing from a bankrupt UHF station in Albany. It wasn't that they were -- they didn't invent television or anything of the sort, they just managed it so well. So really outstanding managers, they're invaluable and we want to align -- Charlie and I don't get to do it ourselves, but we want to align ourselves with them and then have them feel about Berkshire the way we feel about it. And if we do that, we have an enormous asset, and we do have in Ajit and a number of the other managers. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, and -- but Ajit has a longer shelf life than we do. He'd be particularly missed.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, let's not give up there, Charlie. I reject such defeatism. Cliff?

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

Low to negative interest rates is something that's been discussed a few times today, and you've mentioned its implications for a return on float. I was wondering how should shareholders value the 25% of the float that's been created by retrocession of reinsurance, where the business is booked at an underwriting loss, and at times has adversely developed?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Cliff brings up some of our business in the insurance business. We take the heat [ph] of the probability of some underwriting loss in order to get to use the money for a very long period of time, and it would look under today's base interest rates like we can't do much with that. There's 2 answers to that: we don't think it will -- for the duration of the kind of contracts we have, we don't expect these rates, but we could be wrong; but the second one also is that we do think that, occasionally, we will get chances, even in periods of low interest rates, to do things that are -- will produce quite a bit of very reasonable returns. And so we do not -- we are not measuring it against doubling corporates or anything of the sort. We're measuring it in the potential utility to us with our really pretty unusual flexibility in respect to the deployment of funds and this long period when we'll have an opportunity perhaps to come up with 1 or 2 things that -- where we can deploy money at a rate that may be quite a bit higher than other people assume now that money can be deployed. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, we're willing to pay a little money now to have the certainty of having a lot of money available in case something really attractive comes up in a bit difficult time.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, it's an option cost.

Charles Thomas Munger
Vice Chairman

It's an option cost, right.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

And that option came in handy in 2008 and '09, for example.

Charles Thomas Munger
Vice Chairman

Did it ever.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay, Station 6?

Unknown Attendee

Charlie and Warren, my name is Mindy Jensen [ph] and I'm from Longmont, Colorado. I worked for the largest real estate investment social network online called biggerpockets.com. We're seeing investors starting to get concerned that the real estate market is a bit floppy, similar to the run up of the 2005, '06 and '07 that led to the crash in 2008. Warren, in 2012, you told Becky Quick that if you had a way to easily manage them, you'd buy 100,000 houses and rent them out. How do you feel about the real estate market today?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

It's not as attractive as it was in 2012. The -- we're not particularly better at predicting real estate markets than we are at stock markets or interest rate markets. But they're certainly -- and it's driven to some extent by these low interest rates, but there are certainly properties that are being sold at very, very low cap rates that strike me as having more potential for loss than gain. But again, if you could can borrow money for very, very little and you think you're getting into some very safe asset 100 basis points or 150 basis points higher, there's a great temptation to do it. I think it's a mistake to do that, but I could be wrong. I don't see a nationwide bubble in residential real estate now at all. I think in a place like Omaha or most of the country, you are not paying bubble prices for residential real estate. But it's quite different than it was in 2012, and I don't think the next time around the problem is going to be a real estate bubble. I think that it certainly was the cause in a very large part of what happened in 2008 and '09, but I don't think it would be a replica of that. Charlie?

Charles Thomas Munger
Vice Chairman

Nothing to add.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Andrew?

Andrew Ross Sorkin

Warren, Todd and Ted now have been in Berkshire for several years. What have been their biggest hits and failures, specifically? And what have they learned from Charlie and Warren? And what are the biggest differences between you and them?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I'll answer the last part, and it is -- I am trying to think of very big deals that we can do something in, in investments or -- Warren does this preferably and just in operating businesses. I mean, they still are -- their primary job is working on a -- each has $9 billion portfolio, and one of them has, I don't know, perhaps, 7 or 8 positions and the other one has maybe 13 or 14. But they have a very similar approach to investing. They've both been enormously helpful in doing several things, including important things that for which they don't get paid a dime and which they're just as happy working on as working on the things as they are when they are working on things that do pay off for them financially. They've got -- they're perfect cultural fits for Berkshire. They're smart at what they do, and they're a big addition to Berkshire. Charlie?

Charles Thomas Munger
Vice Chairman

Again, I've got nothing to add.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Did I cover the whole thing, Andrew? Or was there one -- a point that I missed? Did I...

Andrew Ross Sorkin

Biggest hits and failures, I think they specifically wanted to know in terms of investments and trying to understand the way you think perhaps. I think the question was more -- I think the implication was the way they think and the way you think. Are there differences?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, they're -- I would say they have a bigger universe to work with. If you take a look at ideas in which they can put $500 million, and I'm looking -- I'm trying to think of ways to put lump sums in the billions. But they probably -- well, they certainly have a more extensive knowledge of certain industries and activities and business that have developed in the last 10 or 15 years. They'd be smarter on that than I am. But their approach to investing, I mean, they're looking for businesses that they understand and that are going -- and through the stocks of those businesses that they can buy at a sensible price and that they think will be earning significantly more money 5 or 10 years from now. So it's very similar to what I'm thinking about, except I'd probably add another 0 to it.

Charles Thomas Munger
Vice Chairman

And we don't want to talk about specific hits and failures.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

No. Okay, Gregg? Yes, we will never get into the supposing. I mean, we file reports every 90 days that show what Berkshire does in marketable securities. But we don't identify -- I may identify whether it's mine or theirs, but we don't get into identifying what they do individually.

Greggory Warren
Morningstar Inc., Research Division

Looking at Berkshire's financing, financial product segment, there is a fairly significant increase in the amount of cash carried on the group's books last year. After holding steady between $2 billion and $2.5 billion during 2012 to 2014, the amount of cash held at the segments spiked up to $5.4 billion at the end of the third quarter of last year and $7.1 billion at the end of 2015.

This incidentally coincided with your acquisition of GE's railcar leasing unit, as well as the acquisition of several Railcar repair and maintenance facilities. Sales and profitability were fairly solid last year but don't really seem to account for the magnitude of the change in cash, and investments, debt and other liabilities do not look to have changed significantly enough to count for the difference, perhaps accounting for about $1 billion of the increase. Just wondering where the additional $3.5 billion in cash came from and whether or not the elevated level of cash at the end of last year is the access to the business or a new required level of cash for the operations.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I can tell -- I can't tell where you're coming from. You I think I would, $3.5 billion, but I can tell you why it would -- we were funneling money into the parent company and in the financed company. That money was basically dedicated to making the $22 billion portion of the Precision Castparts purchased that was accounted for that cash. We borrowed -- actually borrowed $12 billion, but $10 billion was what was of the borrowing list there. And we pushed money from various sources depending on who owned what and that sort of thing. We pushed money into those 200 days and eventually into the parent company to take care of the $22 billion that was coming due -- turned out to be at the end of January when the Precision Castparts close. There's really no significance other than that. Okay, Station 7?

Unknown Attendee

My name is Jeffrey [indiscernible] from Cranford, New Jersey. I just have a simple question for you. How would you explain IBM's moat?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I'm not sure that's a simple question.

Charles Thomas Munger
Vice Chairman

No, I do not either.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, it has certain strengths and certain weaknesses, and I don't think we want to get into giving an investment analysis of any of the portfolio of companies that we own. I would -- I think I probably better leave it there. Charlie?

Charles Thomas Munger
Vice Chairman

Yes. It's obviously coping with a considerable change in the computing world, and it's attempting something that's big and interesting and God knows whether it's going to work modestly or very well. I don't think Warren knows either.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

No. We'll find out whether the strengths are strengths.

Charles Thomas Munger
Vice Chairman

But it's a feel that a lot of intelligent people are trying to get big in.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. We're going to go to Section 8 and then we will adjourn for 15 minutes prior to the formal meeting of the company.

Unknown Attendee

My name is Christian Campos [ph] . I'm from New York City. I'm a senior accounting major at Baruch College, part of the City University of New York. And Mr. Buffett, in your annual shareholder letters and during interviews and even today, your sense of humor always shines through. Where does your sense of humor come from? Please tell us.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

That's just the way I see the world. It's a very interesting and very humorous place. And actually, I think Charlie has a better sense of humor than I have, so I'll let him answer where he got his.

Charles Thomas Munger
Vice Chairman

I think if you see the world accurately, it's bound to be humorous, because it's ridiculous.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Well, I think that's a good note to close on. We will reconvene in 15 minutes for the formal part of the meeting. We have one proxy item to act on, and so I hope that those of you who are interested in learning more about actually the insurance aspects of climate change will stick around and we'll have a discussion then. I'll see you at 3:45. Thank you.

[Break]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay, if everybody will please settle down, we'll proceed with the meeting. I think we'll now come to order. I'm Warren Buffett, Chairman of the Board of Directors of the company. I welcome you to this 2016 Annual Meeting of Shareholders. This morning, I introduced the Berkshire Hathaway directors that are present. Also with us today are partners in the firm of Deloitte & Touche auditors. They're available to respond to appropriate questions you might have concerning our firm's audit of the accounts of Berkshire. Sharon Heck is Secretary of Berkshire Hathaway, and she will make a written record of the proceedings. Becki Amick has been appointed Inspector of Elections at this meeting. She will certify that the count of votes cast and the election for directors and the motion get voted upon at this meeting. And the proxy holders for this meeting are Walter Scott and Marc Hamburg. Does the Secretary have a report of the number of Berkshire shares outstanding -- they turned off the lights on me -- entitled to vote and representative of the meeting.

Sharon L. Heck
Vice President and Secretary

Yes, I do. As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 2, 2016, the record date for this meeting, there were 807,242 shares of Class A Berkshire Hathaway common stock outstanding, with each share entitled to one vote on motions considered at the meeting, and 1,254,393,030 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to 1/10,000 of one vote on motions considered at the meeting. Of that number, 575,608 Class A shares and 772,724,950 Class B shares are represented at this meeting by proxies returned through Thursday evening, April 28.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

That number represents a quorum, and we will therefore directly proceed with the meeting. The 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 the motion for the meeting.

Walter Scott
Director

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

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Do I hear a second?

Ronald L. Olson
Director

I second the motion.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

The motion is being moved and seconded. We will vote on the motion by voice vote. All those in favor say, "aye"?

[Voting]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Oppose?

[Voting]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

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

Walter Scott
Director

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

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Is there a second?

Ronald L. Olson
Director

I second the motion.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

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

[Voting]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

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

Becki Amick

My report is ready. The ballot of the proxy holders, in response to proxies that we received through last Thursday evening, cast not less than 643,789 votes for each nominee. That number far exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the Secretary to be placed with the minutes of this meeting.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Thank you, Ms. Amick. Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, 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 the Nebraska Peace Foundation. The motion is sent forth in the proxy statement and will -- the projection -- please put up #9. Here we are. The motion request that our insurance business issue a report describing our response to the risk posed by climate change including specific initiatives and goals relating to each risk issue identified. The records have recommending that the shareholders vote against the proposal. I will now recognize, and I think it will be up in Area 1, I will now recognize Dr. James Hansen to present the motion. But I believe maybe the gentleman from the Nebraska Peace Foundation may be introducing it and then he may introduce Dr. Hansen. To allow all interested shareholders to present their views, I ask the initial speaker to limit his remarks to 5 minutes, and then those at the microphone at Zone 1 is available for those wishing to speak for or against the motion subsequently. Zone 1 is only the microphone station in operation. For the benefit of those present, I ask that each speaker, for or against the motion, limit themselves, with the exception of the initial speaker, to 2 minutes and confine your remarks solely to the motion and the motion should be left up upon the -- let me see if that's up there or not. Yes, okay, the motion should be left up there. In a sense, incidentally, I -- it asked us to present a report about the risk to the insurance division by climate change, and I didn't address this subject in the annual report. That would be a report, and it was a report that was concurred with by Ajit Jain, who is our #1 expert on insurance risk. So that does represent the view of our insurance division and myself as the Chief Risk Officer, but the subject now is open, and we welcome the initial speaker's commenting. If you're just fine to introduce Dr. Hansen, I can see who's up there, then he, I presume, he will have the 5 minutes and then subsequent speakers will have 2 minutes. So go to it, you're on.

Mark Vasina

Thank you. My name is Mark Vasina. I'm the Treasurer of the Nebraska Peace Foundation, the owner of 1 A share of Berkshire Hathaway. We are the sponsor of the shareholder resolution, which Mr. Buffett has described. In so doing, making a recommendation to develop a risk analysis and report on it, we're following the lead of the Bank of England, which last September, published a comprehensive report on climate change risks facing the insurance industry and recommended that its regulated companies conduct reviews of the risk and make this available. The Bank of England regulates the U.K. insurance industry, which is the third-largest global insurance market. I'll turn the rest of my time over to world-renowned climate scientist, Dr. James Hansen.

James E. Hansen
National Aeronautics and Space Administration

I want to make a suggestion that I hope you will ponder. Some aspects of climate have become clear: humans are changing the atmosphere, and we can measure how this is changing Earth's energy balance. More energy is coming in than going out. So the ocean is warming, ice sheets are melting and sea level is beginning to rise. We are now close to a point of handing young people a situation that will be out of control, with ice sheet disintegration and multimeter sea level rise during the lifetime of today's young people, which would mean loss of coastal cities and economic devastation. Sea level rise would be irreversible on any timescale of interest to humanity. The other irreversible effect of rapid climate change would be extinction of a substantial fraction of the species on Earth. The bottom line is that we cannot burn all fossil fuels. And the economic law of gravity is, that as long as fossil fuels appear to be the cheapest energy, we will keep burning them. So my request, given the respect and the trust the public has in you, is that you reflect upon the possibility of a public statement in favor of a revenue-neutral, gradually rising carbon fee. A carbon fee is needed to make the price of fossil fuels honest, to include the costs to humanity of their air pollution, water pollution and climate change. A rising carbon fee is needed to spur effective investments by the private sector in clean energies and energy efficiency. Most important, it will steadily face down fossil fuel use. So I'm not asking you to endorse a carbon fee on the spot, but I hope that you will reflect upon it and perhaps, provide a clear statement in your next report. It could be your greatest legacy. It could affect everything, even the course of our future climate.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Thank you, Dr. Hansen. I'm going to say that we, although we may differ on some specifics and I don't know, I'm no expert on the subject whatsoever. I don't think you and I have any difference in the fact that it's important that climate change, since this is something where there is a point of no return, if we are on the course that you think is certain and I think is probable, that it should -- terribly important certainly. But the motion that was put forth was relating to the insurance aspects of it, and we have discussed or we may -- we have thought and discussed insurance aspects. And I've in effect, given a report on the -- which was asked for by -- within the annual report. So it is bringing out the issue before the shareholders is not how I feel about whether climate change is real or whether carbon dioxide is [indiscernible] weather imposes a risk to our insurance business. And I recognize the Bank of England, I read that report. But we respectfully disagree with them in terms of -- not in terms of the importance of climate change, but in terms of the risk to our insurance business. We don't -- we are not forced -- we don't write policies for a long period of time. We're not forced to write a policy on anything. So we are -- our judgment is made as proposition are presented to us, usually as to whether for one year we're willing to accept the given risk for a given price. And that obviously -- climate is enormously important in our activities, hurricanes being the important probably, although we also get involved in earthquakes. But that is what the proposal is about in that, and we've given a response to that and it does not mean that we differ on the importance of climate change to the human race. So with that, I'll be delighted to hear from the various seconders.

Jim Jones

My name is Jim Jones, I'm the Executive Director of the Katie School of Insurance at Illinois State University. I would like to express my concerns based on 3 hidden risks associated with the climate change. the first relates to stranded assets of insurers investing in fossil fuels. The second is a more insidious risk relating to climate change. This risk is associated with the long-term liabilities, associated with the property, life and health lines of business, and I realize that a number of intelligent people and experts don't see a long-term liability, but they're missing one important part is that primary insurers are not able to withdraw or reprice books -- entire books of business. Following Hurricanes Katrina, Rita and Wilma, new hurricane models were developed in Florida, and they attempted to get the recommended rate approvals for that. They were not allowed to. And so many insurers again to withdraw from that market. Ten years later, that about 40% of the underperforming business is still on the books of those insurers.

And this could play out in several other states that are exposed to climate risk. For a reinsurer, the value of reinsurance with their customers is a long-term business. The reason why this is so important is because, according to my count, 156 of your reinsurance customers have filed climate change disclosures; and these customers are looking for long-term interest being protected by their reinsurer. And if not, there's a potential for a relationship default risk that could occur if they perceive your reinsurance as just being one-year contracts that can be repriced or withdrawn. And you enter into that world of the expanding market competition of alternative reinsurance, which just last year was $72 billion and earlier this quarter, we set a record of $2.2 billion in cat bonds.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

The -- I would point out that we have not been asked ever, to my knowledge, to write long-term contracts. Our primary insurers know that we look at it one year at a time and we will not write business that we think has a major negative probability, and they don't expect us to. I -- it's way less a relational business than in the past. It's much more a transactional business. But we will not write -- if we lose a customer because they want us to do something stupid, we lose the customer. And it -- there's not a -- in our business, I'm not speaking for other reinsurers, but in our business, and I believe with most other reinsurers, they are not going to do something that they think is terribly disadvantageous to them just to maintain a relationship. That's not really a relationship, in subsidy. So I -- that does not strike me frankly, as a factor at all, of any negative consequence at Berkshire. We, in terms of what happened after Katrina, rates went up. And actually, the hurricane experience in Florida has been better than any periods since in -- before 1850, that we have any records on. That's been a surprise to us incidentally, but we've not written business, catastrophe business in Florida during that period because we don't think the rates were adequate. They were adequate, but we just were wrong about it. So the -- and incidentally that is not -- the fact that we walked away from CAT business in Florida, that we thought was mispriced, does not hurt us in the business. It's really a -- it's much more of a transactional business. There may have been a time when relationships were very big in reinsurance but with so many entrants in, it is very much a transactional business and no one expects you to do something that's very stupid. If they do that, it's the wrong kind of a relationship. But glad to hear the next speaker.

Jane Fleming Kleeb

Mr. Buffett, my name is Jane Kleeb. I run a group called Bold Nebraska, which was part of an unlikely alliance who beat Keystone XL to protect the aquifer status as well as property rights. And I met you several years ago at Senator Nelson's home and I had pulled you aside and asked how could we get health care reform passed. And you told me 2 things. You said: The polling numbers matter; and, that we have to keep on applying public pressure. And we feel the same way about climate change and climate action. The most recent Yale study said that even 47% of conservatives believe in climate change and want to start seeing corporate and government action. And your response to this resolution struck me because one of the sentences said, that if you live in a low-lying area, you should probably move. Well, we work with native brothers and sisters who live in coastal communities, and one of those tribes is now the first United States climate refugees. They didn't have the option to move. They were forced to move. And so we're turning to you and we're turning to ourselves to continue to apply public pressure and hope that both you and Charlie stand with us. And maybe it's not this year and maybe it's not the year after, but we really look forward to you doing full climate risk analysis as well as divesting from all the fossil fuels that you own. And lastly, it takes both small and mighty as well as big and powerful to solve this problem of climate change. So you blocking small solar Nevada is the wrong road to go down.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. I think you'll have a reasonable time to move, but I was making a 50-year investment in low-lying properties is probably a mistake. I actually said you may, as a homeowner in the low-lying area, you may wish to consider moving. And I would say that if you expect to be there for 10 years or so, I don't think I would consider moving, but if I thought I was making 100-year investment, I don't think I would make that. I think -- I guess the question -- we have a shareholder proposal that says, what are the risks to the insurance division from climate change? We're not denying climate change is an incredibly important subject. We're not denying its existence. But it will not hurt our insurance business, and it's immaterial compared to other things that could affect our insurance business, and that is the issue before the meeting. I'll be glad to hear from the next speaker.

Unknown Attendee

Mr. Buffett, my name is Kate Carr, and I've been a shareholder for more than a decade, basically, my investing life. Today, someone said that you think ahead of the crowd. With regards to this resolution, you're saying that Berkshire Insurance business will just raise rates the next time the policy is renewed, and that makes sense. But you agreed that climate change poses a major problem for our planet. I would say that climate change poses a major problem for the stability of our global financial markets if the political action continues at its current pace with regards to this issue. I personally agree with Dr. Hansen that a carbon fee is the solution to address this issue. I'm wondering if you can tell us what you think the solution to address this issue is, and whether you think the Berkshire businesses more broadly than just insurance will be impacted by this issue in the next decade or 2?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Yes, I would doubt if it's going to effect in the next decade or 2, but I won't argue with you at all that it's likely not certain that unless various techniques are designed for reducing -- well, for sequestration, different things of that sort that only a people will be working on or unless see emissions greenhouse, gas emissions are reduced significantly, then it's a terribly important problem for civilization. And there've been other -- I mean, there are certainly going to be some very smart people working on ways to change the balance in some way, either through less being released into the atmosphere or by various techniques that might diminish the impact. But no one here will deny that it's important. I don't think it will impact in a serious way the climate, or insurance for that matter, in the next decade or 2. But as I pointed out in the report, if you're dealing with something where there's a point of -- you've passed the point of no return, the time to do something isn't the way that they could 10 minutes away from the point of no return. So that there are policies, which we've subscribed to very strongly in terms of renewables and that sort of thing. But I think there's also possibilities within the scientific community that there will be solutions that are beyond my knowledge of physics to conjure up myself. But there are a lot of people out there that are smarter. And I think that a basic problem on the reduction, on the -- if those things don't come to pass, it's the fact that it's a planetary problem and it requires cooperation by very important countries. And I think President Obama has done -- at least a good start in working with leaders of other countries. But it can't be solved by the United States alone, as you know better than I. I'm glad to hear the next speaker.

Unknown Attendee

My name is Nancy Meyer, and I've been a shareholder for 15 years with my husband. We have great faith in Berkshire Hathaway, that's why we invested. So I'm just here to say that as a shareholder, I'd like to ask my fellow shareholders to consider the economic cost of climate change and urge Berkshire Hathaway to adopt this resolution to show leadership in the insurance industry.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

I appreciate the fact you've been a shareholder. And -- but I do think for reasons I laid out, I don't really think that the -- I think the resolution is, in a sense inapplicable to our insurance business. I mean, to insurance global climate is not a risk to our insurance business. I maybe a risk climate over time, but that's a different thing. I mean, you can -- even if we adopt all kinds of resolutions about saying that obviously, nuclear proliferation is a threat to the planet, and you're going to say, well then, it's a threat to Berkshire. But in terms of being Berkshire-specific, you can read the resolution. And then, like I say, our answer with the Ajit Jain, he's probably the smartest person I know in insurance, I have 99% of my net worth in Berkshire. That's all destined to go to some of private institutions that I'm not eager to see that disappear. And I do regard myself as the Chief Risk Officer of Berkshire, and I worry about things that can hurt Berkshire, and I do not see it in our insurance division in relation to climate change. But thank you.

Richard Miller

Good afternoon, Mr. Buffett. I am Richard Miller in the Creighton Theology department here in Omaha, and I study and teach climate change and its social effects. I just wanted to make you aware that Berkshire is operating within a larger economy and that the most important climate analysis, economic analysis from Nicholas Stern indicates that on our current path, by the end of the century, 30% loss in global GDP is possible. The other issue is, when we talk about doing something about climate change, doing something means to avoid major sea level rise we need to reduce emissions globally, starting today, 7% per year. The only time we've ever reduced emissions over a 10-year period in a growing economy was in the 1990s in England, and we reduced it 1% per year. So we're talking about a completely different thing than President Obama's gradual move, and we need to do something. Now we need to do massive transformation immediately. And with your large global holdings, you are a world-significant figure on this, not just about this particular shareholder resolution. Thank you for your time.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Thank you. Would that complete the speakers?

Richard Miller

Say that again?

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Are you the final speaker?

Richard Miller

Oh, sorry, yes.

Becki Amick

Yes, I think those are all the speakers.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Okay. Well, thank you. Charlie, do you have anything you want to say?

Charles Thomas Munger
Vice Chairman

Well, yes. We're in Omaha, which is considerably above sea level. We have no big economic interest in this subject in our insurance companies. We don't break much of that catastrophic insurance we used to write many years ago. So whereas as corporation to take a public stance on the very complicated issues. We've got crime of the cities, we've got a hundred -- we've got a thousand complicated issues that are very material to our civilization. And if we spend our time on the meetings taking public stance on all of them, I think would be quite counterproductive. And I don't like the fact that the people who would constantly present this issue never discussed any solution except reducing consumption of fossil fuels. So there are engineering possibilities that nobody's going to be talked about, and I think that's asinine. So put me down as not welcoming.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

You know I love a political rally. The motion is now ready to be acted to 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 me your report.

Becki Amick

My report is ready. Ballot of the proxy holders in response to proxies that were received through last Thursday evening casts 69,114 votes for the motion and 531,724 votes against the motion. As the number of votes against the motion exceeds a majority of the number of votes of all Class A and Class B shares properly cast on the matter, as well as of 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 of the Board and Chief Executive Officer

Thank you, Ms. Amick. The proposal fails. Does anyone have any question for our audit firm before we adjourn? If not, I recognize Mr. Scott to place a motion before the meeting.

Walter Scott
Director

I move this meeting be adjourned.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

Mr. Olson?

Ronald L. Olson
Director

And I second it.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

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

[Voting]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer

All opposed, say "no".

[Voting]

Warren E. Buffett
Chairman of the Board and Chief Executive Officer
The meeting's adjourned. Thank you.