Berkshire Hathaway Inc.

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Shareholder/Analyst Call

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Call Participants

EXECUTIVES

Charles Thomas Munger
Vice Chairman

Gregory Edward Abel
Chairman and Chief Executive Officer

Rebecca K. Amick
Director of Internal Auditing

Sharon L. Heck
Vice President and Secretary

Walter Scott
Director

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

ANALYSTS

Adam B. Bergman
Sterling Capital Management LLC

Greggory Warren
Morningstar Inc., Research Division

Jay H. Gelb
Barclays PLC, Research Division

Jonathan Brandt

Lijun Lin

SHAREHOLDERS

Mark Vasina

Unknown Shareholder

ATTENDEES

Andrew Ross Sorkin

Becky Quick

Bruce M. Hertz, MD

Carol Loomis

David Titley

Frank LaMere

Michael Mann

Richard Miller

Richard Somerville

Sally Burns

Unknown Attendee

Presentation

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

Thank you, and good morning. That's Charlie, I'm Warren. You can tell us apart because he can hear and I can see. That's why we work together so well. We each have our specialty.

I'd like to welcome you to -- we've got a lot of out-of-towners here, and I'd like to welcome you to Omaha. It's a terrific city. And Charlie has lived in California now for about 70 years, but he still got a lot of Omaha in him. And both of us were born within 2 miles of this building that you're in, and Charlie, as I imagine, in his description of his amorous triumphs in high school. Charlie graduated from Central High, which is about 1 mile from here. It's a public school. And my dad, my first wife, my 3 children and 2 of my grandchildren have all graduated from the same school. In fact, my grandchildren say they've had the same teachers that my dad -- but it's a great city. I hope you get to see a lot of it while you're here.

And in just a minute, we will start a question period, hopefully, a question-and-answer period, that will last until about noon. And then we'll take a break for an hour or so. We'll reconvene at 1, and then we'll go continue with the question-and-answer period until 3:30. And then we'll break for 15 minutes or so, and then we'll convene the Annual Meeting of Berkshire, which I -- we have 3 propositions that people wish to speak on. So that could last perhaps as long as an hour.

Before we start, I'd like to make a couple of introductions. The first being Carrie Sova, who's been with us about 7 years. Can we have a light on Carrie? I think she -- Carrie, are you there? Carrie -- stand up Carrie, come on. Carrie puts on this whole program. She came with us about 7 years ago, and a few years ago, I said, why don't you just put on the annual meeting for me? And she handles it all. And she has 2 young children. And she has dozens and dozens and dozens of exhibitors that she works with. And you can imagine with all of what we put on and all of the numbers of you that come, the hotels and the airlines and the rental cars and everything, she does it as if she'd do that and be juggling 3 balls at the same time. She's amazing, and I want to thank her for putting on this program for us. Well done.

I also would like to welcome and have you welcome our directors. They will be voted on later. So I'll do this alphabetically there in the front row, and if we can just have the spotlight dropped on them as they're introduced. And alphabetically, it's Howard Buffett; Steve Burke; Sue Decker; Bill Gates; Sandy Gottesman; Charlotte Guyman. We have Charlie Munger next to me; Tom Murphy; Ron Olson; Walter Scott; and Meryl Witmer. One more introduction I'm going to make, but I'll save that for just a minute.

Our earnings report was put out yesterday. The -- as we regularly explain, the realized investment gains or losses in any period really mean nothing. I mean, we could take a lot of gains if we wanted to, we could take a lot of losses if we wanted to, but we don't really think about the timing of what we do at all except in relation to the intrinsic value of what we're buying or selling. We are not -- we do not make earnings forecasts. And we have -- on March 31, we have over $90 billion of net unrealized gains. So if we wanted to report almost any number you can think of and count capital gains as far as the earnings, we can do it.

So in the first quarter -- and I would say that we have a very, very, very slight preference this year if everything else were equal. Well, it's true in any year, but it's a little more so this year. We would rather take losses than gains because of the tax effective, if 2 securities were equally valued. And there's probably just one touch more of emphasis on that this year because we're -- we are taxed on gains at 35%, which means we also get the benefit, the tax benefit of 35% of any losses we take. And I would say that there's some chance of that rate being lower, meaning that losses would have less tax value to us after this year than they would have this -- after this year than next year.

That is not a big deal, but it would be a very slight preference. And it may get to be more of a factor in deferring any gains and perhaps accelerating any losses as the year gets closer to December 31, assuming -- and I'm making no predictions about it, but assuming that there were to be a tax act that had the effect of reducing earnings.

So in the first quarter, insurance underwriting was the swing factor. And then the -- there's a lot more about this in our 10-Q, which you can look up on the Internet. And you really -- if you're seriously interested in evaluating our earnings or our businesses, you should go to the 10-Q because the summary report, as we point out every quarter, does not really get to the main -- a number of the main points of valuation.

I would just mention 2 factors in conjunction with the insurance situation, which I love. In the first 4 months, not the first 3 months, but the first 4 months, GEICO has had a net gain of 700,000 policyholders, and that's the highest number I can remember. There may have been a figure larger than that somewhere in the past, but I did not go back and look at them all. But last year, I believe that figure was like 300,000. And this has been a wonderful period for us at GEICO because several of our major competitors have decided -- and they publicly stated this -- in fact, one I just reiterated the other day, although they now changed their policy. But they intentionally cut back on new business because new business carries with it a significant loss in the first year. There's just cost of acquiring new business. Plus the loss ratio, strangely enough, on first-year business tends to run almost 10 points higher than on renewal business. And so not only do you have acquisition costs, but you actually have a higher loss ratio.

So when you run a lot of new business, you're going to lose money on that portion of the business that year. And we wrote a lot of new business. And at least 2 of our competitors announced that they were lightening up for a while on new business because they did not want to pay the penalty of the first year loss. And of course, that's made to order for us, so we just put our foot to the floor and try to write as much business, good business as we can, and there are costs to that.

A second factor -- well, it's not a factor in the P&L, but an important event in the first quarter is that we increased our float. And on the slide, I believe it shows that year-over-year, $16 billion. $14 billion of that came in the first quarter this year. So we had a $14 billion increase in float. And for some years, I've been telling it's going to be hard to increase the float at all. And I still say the same thing. But it's nice to have $14 billion or more, which is one reason, if you look at our 10-Q, you will see that our cash and cash equivalents, including treasury bills, now has come to well over $90 billion.

So I think -- I feel very good about the first quarter, even though our operating earnings were down a little bit. One quarter means nothing, I mean, over time. What really counts is whether we're building the value of the businesses that we own. And I'm always interested in the current figures, but I'm always dreaming about the future figures.

There's one more person I would like to introduce to you today, and I'm quite sure he's here. I haven't seen him, but I understood he was coming. There's a -- I believe he's made it today. And that is Jack Bogle, who I talked about in the annual report. Jack Bogle has probably done more for the American investor than any man in the country. And Jack, could you stand up? There he is.

Jack Bogle, many years ago, he wasn't the only one that was talking about an index fund, but it wouldn't have happened without him. I mean, Paul Samuelson talked about it. Ben Graham even talked about it. But the truth is always not in the interest of the investment industry of Wall Street. It was not in their interest actually to have a development of an index fund -- or the index fund because it brought down fees dramatically. And as we've talked about some in the reports and other people have commented, index funds overall have delivered for shareholders a result that's been better than Wall Street professionals as a whole, and part of the reason for that is that they brought down the costs very significantly.

So when Jack started, very few people -- and certainly Wall Street did not applaud him, and he was the subject of some derision and a lot of attacks. And now we're talking trillions when we get into index funds. And we're talking a few basis points when we talk about investment fees in the case of index funds, but still hundreds of basis points when we talk about fees elsewhere. And I estimate that Jack at a minimum has saved -- left in the pockets of investors without hurting them overall in terms of performance at all, gross performance, he's put tens and tens and tens of billions into their pockets, and those numbers are going to be hundreds and hundreds of billions over time.

So it's Jack's 88th birthday on Monday. So I just say happy birthday, Jack, and thank you on behalf of American investors. And Jack, I've got great news for you. You're going to be 88 on Monday, and in only 2 years, you'll be eligible for an executive position at Berkshire. So hang in there, buddy.

Okay. We've got a panel of expert journalists on this side and expert analysts on that side and expert shareholders in the middle. And we're going to rotate, starting with the analysts and some who are here I have a -- here we go. And we will -- we'll do this through the afternoon. After we -- if we get through 54 questions, which would be 6 for each journalist, 6 for each analyst and 18 more for the audience, then we will go strictly to the audience. I don't think I've got any information as to what the situation is on overflow rooms, but we'll go to at least one of them.
But let's start off with Carol Loomis of Fortune Magazine, the longest-serving employee in the history of Time Inc., I believe, with 60 years. Carol, go to it.

Question and Answer

Carol Loomis

Thank you. Thank you from all of us journalists up here. I know that there are many, many people out there who have sent us questions that aren't going to get answered, and I just want to say that it's very hard to get a question answered. The one thing I can suggest is you follow Warren's thoughts in the annual report that he wants everybody to go away from this meeting more educated about Berkshire than they were when they came. And one way you can do that is keep your questions quite directly Berkshire-related or relating to the annual letter. Even then, it will be hard to get your question answered. The 3 of us only have 18 questions in total. But I encourage you to think in the Berkshire-related direction when you're submitting that question next year. Now my first question, it's about Wells Fargo, which is Berkshire's largest equity holding, $28 billion at the end of the year. And this question comes from a shareholder who did not wish to be identified. In the wake of the sales practices scandal that last year engulfed Wells Fargo, the company's independent directors commissioned an investigation and hired a large law firm to assist in carrying it out. The findings of the investigation, which were harsh, have been released in what is called the Wells Fargo sales practices report. You can find it on the Internet. It concludes that a major part of the company's problem was that, and I quote, "Wells Fargo's decentralized corporate structure gave too much autonomy to the Community Bank's senior leadership." Mr. Buffett, how do you satisfy yourself that Berkshire isn't subject to the same risk with its highly decentralized structure and the very substantial autonomy given to senior leadership of the operating companies?

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

Yes, it's true that we at Berkshire probably operate on this. We certainly operate on a more decentralized plan than any company remotely our size. And we count very heavily on principles of behavior rather than loads of rules. It's one reason that every annual meeting you see that Salomon description, that's why I write very few communiques to our managers. But I send them one once every 2 years, and it basically says that we've got all the money we need. We'd like to have more, but we -- it's not a necessity, but we don't have one ounce of reputation more than we need, and that our reputation at Berkshire is in their hands. And Charlie and I believe that if you establish the right sort of culture and that culture, to some extent, self-selects who you obtain as directors and as managers, that you will get better results that way in terms of behavior and if you have 1,000-page guidebook, you're going to have problems regardless. We have 367,000, I believe, employees. Now if you have a town with 367,000 households, which is about what the Omaha metropolitan area is, people are doing something wrong as we talk here today. There's no question about it. And the real question is whether the managers are in a better -- are worrying and thinking about finding and correcting any bad behavior and whether if they fail in that, whether the message gets to Omaha and whether we do something about it. At Wells Fargo, there were 3 very significant mistakes, but there was one that dwarfs all of the others. You're going to have incentive systems at any -- almost any business. There's nothing wrong with incentive systems, but you've got to be very careful what you incentivize, and you can't incentivize bad behavior. And if so, you better have a system for recognizing it. Clearly, at Wells Fargo, there was an incentive system built around the idea of cross-selling and number of services per customer and the company, and every quarterly investor presentation highlighted how many services per customer. So it was the focus of the organization, a major focus, and undoubtedly people got paid and graded than promoted based on that number, at least partly based on that number. Well, it turned out that, that was incentivizing the wrong kind of behavior. We've made similar mistakes. I mean, any company is going to some mistakes in designing a system, but it's a mistake, and you're going to find out about it at some point. And I'll get to how we find out about it. But the biggest mistake was that -- and I don't know -- obviously, I don't know the facts as to how the information got passed up the line at Wells Fargo, but at some point, if there's a major problem, the CEO will get wind of it. And that is -- at that moment, that's the key to everything because the CEO has to act. That Salomon situation that you saw happened because on April, I think, 28, the CEO of Salomon, the president of Salomon, the general counsel of Salomon, sat in a room, and they had described to them by a fellow named John Meriwether some bad practice, terrible practice that was being conducted by a fellow named Paul Mozer, who worked for them. And Paul Mozer was flimflamming the United States Treasury, which is a very dumb thing to do. And he was doing it partly out of spite because he didn't like the Treasury and they didn't like him. So he put in phony bids for U.S. treasuries and all that. So on April 28, roughly, the CEO and all these people knew that they had something that had gone very wrong, and they had to report it to the Federal Reserve Board in New York -- Federal Reserve Bank in New York. And the CEO, John Gutfreund, said he would do it. And then he didn't do it, and he undoubtedly put it off just because it was an unpleasant thing to do. And then on May 15, another treasury auction was held, and Paul Mozer put in a bunch of phony bids again. And at this point, it's all over because the top management had known ahead of time, and now a guy that was a pyromaniac had gone out and lit another fire. And he lit it after they've been warned that he was a pyromaniac, essentially. And it all went downhill from there. It had to stop when the CEO learns about it. Then they made a third mistake actually, but again, it pales in comparison to the second mistake. They made a third mistake when they totally underestimated the impact of what they had done once it became uncovered because there was a penalty of $185 million, and in the banking business, people get fined billions and billions of dollars for mortgage practices and all kinds of things. The total fines against the big banks, I don't know what it totals, $30 billion or $40 billion or whatever the number may be. So they measured the seriousness of the problem by the dimensions of the fine, and they thought a $185 million fine signaled a less offensive practice than something involved $2 billion. And they were totally wrong on that. But the main problem was they didn't act when they learned about it. It's bad enough having a bad system, but they didn't act. At Berkshire, we have -- the main source of information for me about anything that's being done wrong at a subsidiary is the hotline. Now we get 4,000 or so hotline reports that we get communications on the hotline, perhaps 4,000 times a year. And most of them are frivolous. The guy next to me has bad breath or something like that. I mean, it's -- but there are a few serious ones. And the head of our internal audit, Becki Amick, looks at all of those. People, a lot of them come in anonymous, probably most of them. And some of them she refers back to the company, probably most of them. And -- but anything that looks pretty serious I will hear about. And that has led to action. We'll put them more than once. And we spent real money investigating some of those. We put special investigators sometimes on them. And like I say, it has uncovered certain practices that we would not at all condone at the parent company. I think it's a good system. I don't think it's perfect. I don't know what -- I'm sure they've got an internal audit at Wells Fargo, and I'm sure they've got a hotline, and I don't know the facts. But I would just have to bet that a lot of communications came in on that, and I don't know what their system was for getting the right person, and I don't know who did what at any given time. But that was -- it was a huge, huge, huge error if they were getting -- and I'm sure they were, getting some communications and they ignored them or they just sent them back down to somebody down below. Charlie, you followed it. What are your thoughts on it?

Charles Thomas Munger
Vice Chairman

Well, put me down as skeptical when some law firm thinks they know how to fix something like this. If you're in a business where you have a whole lot of people, incentive is very likely to cause a lot of misbehavior. Of course, you'd need a big compliance department. Every wirehouse, stock brokerage firm has a huge compliance department. And if we have one, we would have a big compliance department, won't we, Warren?

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

Absolutely.

Charles Thomas Munger
Vice Chairman

Absolutely. But it doesn't mean that everybody should try and solve their problem with more and more compliance. I think we've had less trouble over the years by being more careful in whom we pick to have power and having a culture of trust. I think we have less trouble, not more.

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

But we will have trouble from time to time.

Charles Thomas Munger
Vice Chairman

Yes, of course. We'll be blind-sided someday.

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

Charlie says an ounce of prevention. He said when Ben Franklin, who he worships, said, "An ounce of prevention is worth a pound of cure", he understated it, that an ounce of prevention is worth more than a pound of cure. And I would say a pound of cure properly applied is worth a ton of cure that's delayed. Problems don't go away. John Gutfreund said that problem originally was -- he called it a traffic ticket. He told the troops there at Salomon it was a traffic ticket, and it almost brought down a business. And some other CEO described the problem that he'd encountered as a footfall, and it resulted in an incredible damage to the institution. And so you've got to act promptly. And frankly, I don't know any better system that hotlines and anonymous letters -- to me, I get anonymous letters. And I've gotten 3 or 4 of them probably in the last 6 or 7 years that have resulted in major changes. And very, very occasionally, they're signed. Almost always are anonymous, but won't make any difference because there will be no retribution against anybody, obviously, if they call our attention to something that's going wrong. But I will tell you, as we sit here, somebody is doing -- quite a few people are probably doing something wrong at Berkshire, and usually, it's very limited. I mean, maybe stealing small amounts of money or something like that. But when it gets to some sales practice like what's taking place at Wells Fargo, you can see the kind of damage it would do.

We will now shift over to the analysts, and Jonny Brandt.

Jonathan Brandt

You addressed the risk of driverless cars to GEICO's business, but this strikes me that driverless trucks could narrow the cost advantage of railroads even if the number of crew members in a locomotive eventually declines from 2 to 0. Is autonomous technology more of an opportunity or more of a threat to the Burlington Northern?

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

Well, I would say that driverless trucks are a lot more of a threat than an opportunity to the Burlington Northern. And I would say that if driverless cars became pervasive, it would only be because they were safer, and that would mean that the overall economic cost of auto-related losses had gone down, and that would drive down the premium income of GEICO. So I would say both of those. Autonomous vehicles, widespread, would hurt us if they want -- if they spread to trucks, and they would hurt our auto insurance business. I think my personal view is that they will certainly come. I think they may be a long way off, but that will depend -- it'll probably, frankly, depend on experience in the first early months of the introduction in other than test situations. And if they make the world safer, it's going to be a very good thing, but it won't be a good thing for auto insurers. And similarly, if they learn how to move trucks more safely, there tends to be driver shortages in the truck business. Now, it obviously, improves their position vis-à-vis the railroads. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think that's perfectly clear.

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

Finally, approval, all these years. Okay. Station 1, shareholder.

Unknown Shareholder

Warren and Charlie, my name is [Brian Martin], and I'm from Springfield, Illinois. In the HBO documentary, Becoming Warren Buffett, you had a great analogy comparing investing to hitting a baseball and knowing your sweet spot. Ted Williams knew a sweet spot was a pitch right down the middle. When both of you look at potential investments, what attributes make a company a pitch in your sweet spot that you'll take a swing at and invest in?

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

Well, I'm not sure I define it in exactly the terms you would like, but the -- we sort of know it when we see it. And it would tend to be a business that for one reason or another, we can look out 5 or 10 or 20 years and decide that the competitive advantage that it had at the present would last over that period. And it would have a trusted manager that would not only fit into the Berkshire culture but that was eager to join the Berkshire culture. And then it would be a matter of price. But the main -- when we buy a business, essentially, we are laying out a lot of money now based on what we think that business will deliver over time, and the higher the certainty with which we make that prediction, the better off -- the better we feel about it. You can go back to the first outstanding business we bought, but it was kind of a watershed event, which was a relatively small company, See's Candy. And the question when we looked to See's Candy in 1972 was would people still want to be both eating and giving away that candy in preference to other candies. And it wouldn't be a question of people buying candy for the low bid. And we had a manager we liked very much, and we bought a business that paid $25 million worth net of cash. And it was earning about $4 million pretax then. We must be getting close to $2 billion or something like that pretax that we've taken out of it. But it was only because we felt that people would not be buying necessarily a lower-priced candy. I mean, that does not work very well. If you go to your wife or your girlfriend on Valentine's Day, I hope they're the same person, and say here's a box of candy, honey, I took the low bid. It doesn't -- it loses a little of -- as you go through that speech. And we made a judgment about See's Candy that it would be special and -- probably not in the year 2017, but we certainly thought it would be special in 1982 and 1992, and fortunately, we were right on it. And we're looking for more See's Candy, it's only a lot bigger. Charlie?

Charles Thomas Munger
Vice Chairman

Yes. It's also true that we were young and ignorant then and...

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

Now we're old and ignorant.

Charles Thomas Munger
Vice Chairman

Yes. That's true, too. And the truth of the matter is that it wouldn't be very wise to buy See's Candy at a slightly higher price. And if they'd asked us, we wouldn't have done it. So we've gotten a lot of credit for being smarter than we were.

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

Yes. And to be more accurate, if it isn't $5 million more, I wouldn't have bought it, Charlie would have been willing to buy it. So fortunately, we didn't get to the point where we had to make that decision that way. But he would have pushed forward when I probably would've faded. And it's a good thing that a guy came around -- actually, the seller was the grandson of Mrs. See, wasn't he, Charlie. Larry See's son. Am I correct? Larry See's brother. But he was not interested in the business, and he was interested in -- more interested in girls and grapes, actually, and he almost changed his mind. Well he did change his mind about selling, and I wasn't there. But Rick Guerin told me that Charlie went and gave an hour talk on the merits of girls and grapes over having a candy company. This is true, folks. And the fellow sold to us all that. I pull Charlie out of emergencies like that. He's...

Charles Thomas Munger
Vice Chairman

We were very lucky early in the habit of buying horrible businesses because they were really cheap. It gave us a lot of experience trying to fix some fixable businesses as they headed downward toward doom. And that early experience was so horrible, fixing the unfixable, that we were really good at avoiding it thereafter. So I would argue that our early stupidity helped us.

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

Yes, yes. We learned we could not make a silk purse out of a sow's ear.

Charles Thomas Munger
Vice Chairman

No, we learned...

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

So we learned -- we went out looking for silk caps.

Charles Thomas Munger
Vice Chairman

But you haven't tried it for a long time and failed when have rubbed -- have your nose rubbed in to really understand it.

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

Okay. Becky. Becky Quick.

Becky Quick

This question comes from a shareholder named [Mark Blackley] in Tulsa, Oklahoma, who says there has been more news than usual in some of Berkshire's core stock holdings; Wells Fargo and the incentive and new accounts scandal; American Express losing the Costco relationship and playing catch-up in the premium card space; United Airlines and customer service issues; Coca-Cola and slowing soda consumption. How much time is spent reviewing Berkshire's stock holdings? And is it safe to assume that Berkshire continues to hold these stocks, that the thesis remains intact?

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

Well, we spend a lot of time. I think those are very large holdings. If you add up American Express, Coca-Cola, Wells Fargo, I mean, you're getting up well into the high tens of billions of dollars. And those are businesses we like very much. They're different characteristics. In the case of -- you mentioned United Airlines. We actually are the larger holder of all 4 of the -- we're the largest holder of the 4 largest airlines, and that is much more of an industry thought. But all businesses have problems and some of them have some very big pluses. I personally -- you mentioned American Express. If you read American Express' first quarter report and talk about their platinum -- their Platinum card is doing very well. The gains around the world, and I think there were 17% or something like that in buildings in the U.K., and 15% is original currency -- or the local currency. Japan, I'd say, very good. In the United States, there's competition in all the business. And we thought we did not buy American Express or Wells Fargo or United Airlines or Coca-Cola with the idea that they would never have problems or never have competition. What we did buy -- why we did buy them is we thought they had very, very strong hands, and we like the financial policies in the case of many of them. We like their position. We bought a lot of businesses, and we do look to see where we think they have durable competitive advantage. And we recognize that if you got a very good business, you're going to have plenty of competitors who are going to try and take it away from you. And then you make a judgment as to the ability of your particular company and the product and management to ward off competitors. They won't go away, but we think -- I'm not going to get into specific names on it, but those companies generally are very well positioned. I've likened, essentially -- if you got a wonderful business, even the small ones like See's Candy, you basically have an economic castle. And in capitalism, people are going to try and take away that castle from you. So you want a moat around it, protecting it in various ways that you can protect it. And then you want a knight in the castle, who is pretty darn good at warding off marauders. But there are going to be marauders, and they'll never go way. And if you look at -- I think Coca-Cola was 1886; American Express was 18 -- I don't know, '51 or '52, starting out with an Express business; Wells Fargo, I don't know what year they started. Incidentally, American Express was started by Wells and Fargo as well. So these companies had lots of challenges. And they'll have more challenges. And the companies we own have had challenges. Our insurance business has had challenges, but we started with National Indemnity, it was $8 million purchase in 1968. And fortunately, we've had people like Tony Nicely at GEICO and Ajit Jain who's added tens of billions of value. And we've got some smaller companies that you probably don't even know about but really have done a terrific job for us. So there'll always be competition in insurance. But there will always be things to do that are really intelligent, even with a decent distribution system, various things going for them to ward off the marauders. So I -- to the specific question, how much time is spent reviewing the holdings, I would say that I do it every day, and sure, Charlie does it every day. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I don't think I have anything to add to that either.

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

We'll cut his salary if he doesn't participate here. Okay. Jay Gelb?

Jay H. Gelb
Barclays PLC, Research Division

This question is on Berkshire's retroactive reinsurance deal with AIG, which was the largest ever of its kind. Based on AIG's track record of reserve deficiencies and the opportunity for Berkshire to invest the float, what is your level of confidence that this contract, covering up to $20 billion of AIG's reserves in return for $10 billion of premiums, will ultimately be profitable for Berkshire?

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

Well, at the time we do every deal, I think it's smart. And then sometimes I find out otherwise as we go along. The deal, as Jay knows but might be unfamiliar to many people, is that AIG transferred to us the liability for 80% of $25 billion -- excess of $25 billion. In other words, they had to pay the first $25 billion, and then on the next $25 billion, we had to pay 80% of what they paid up to a limit of $20 billion, 80% of $25 billion. And we got paid $10.2 billion for that. And we had -- and this applies to their losses in many clients of the business, written or earned before December 31, 2015. So Ajit Jain, who has made a lot more money for Berkshire than I have -- for you than I have, but he evaluates that sort of transaction. We talk about it a fair amount ourselves, I just find it interesting. I particularly find the $10.2 billion that they're going to give us interesting. And the -- we come to the conclusion that we think we'll do well by getting $10.2 billion today with a maximum payout of $20 billion over some indefinite -- I mean, of between now and Judgment Day on this large piece of business. AIG had very good reasons for doing this because their reserves have been under criticism, and there's essentially, probably and should've, I think, put to bed the question whether they were underreserved on that business. And we get the $10.2 billion. And the question is how fast we pay out the money and how much money we pay out. And Ajit does 99% of the thinking on that, and I do 1%, and we project out what we think will happen. And we know whatever our projection is that it will be wrong, but we try to be conservative, and we've done a fair amount of these deals. This is the largest. The second largest was a creature that was formed out of Lloyd's of London some years ago. And we've been wrong on one transaction that involved something over $1 billion of premium. I mean, clearly wrong. And there are a couple of others that may or may not work out, depending on what you assume we have earned on the funds. But they're okay. But they probably didn't come out as well as we thought they would, no. But overall, we've done okay on this. It's less okay when we're sitting around with $90-plus billion of cash. So the incremental $10.2 billion we took in, in the first quarter is earning us peanuts at the moment. And peanuts is not what fits into the formula for making this an attractive deal. So we have -- we do have to assume we'll find uses of the money. But the money will be with us quite a while. And I think our calculations are on the conservative side. They're not the identical calculations that AIG makes. I mean, we come up with our own estimate of payouts and all of that. And I think -- I actually think it was quite a good transaction from AIG's standpoint because they did take $20 billion of potential losses off for $10.2 billion, and I think they satisfied the investing community that they were quite unlikely to have adverse development in the period prior to 2015 that was not accounted for by this transaction. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think it's intrinsically a dangerous kind of activity, and -- but that's one of its attractions. I don't think there are any 2 people in the world that are better at this kind of transaction than Ajit and Warren. And nobody else has had the experience we've had. Just get me in a lot more of those businesses, and I'll accept a little extra worry.

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

There's one thing I should mention too. We actually were the only insurance operation in the world who would write that sort of a contract and that were -- would be satisfactory to the other party. I mean, when somebody hands you $10.2 billion and says, I'm counting on you to pay $20 billion back even if it's 50 years from now on the last dollar, there are a very few people that they want to hand $10.2 billion to. So it's a -- there's limited people on the other side. I mean, they're not going to do remotely that kind of size deal, but...

Charles Thomas Munger
Vice Chairman

Very few has a good expression. He means one.

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

Yes. Okay. We'll go to Station 2.

Unknown Shareholder

Mr. Buffett, Mr. Munger, my name is [Grant Gibson], I'm from Denver, Colorado. And this is my fifth consecutive year here, so thank you for having us.

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

Thanks for coming.

Unknown Shareholder

I appreciate it. With all due respect, Mr. Buffett, this question is for Mr. Munger. In your career of thousands of negotiations, business dealings, could you describe for the crowd which one sticks out in your mind as your favorite or is otherwise noteworthy?

Charles Thomas Munger

Vice Chairman

Well, I don't think I've got a favorite, but the one that probably did us the most good as a learning experience was See's Candy. It's just the power of the brand, the unending flow of ever-increasing money with no work.

Unknown Shareholder

Sounds nice.

Charles Thomas Munger
Vice Chairman

It was -- and I'm not sure about the Coca-Cola. We hadn't bought the See's. I think that a life properly lived is just learn, learn and learn all the time. And I think Berkshire has gained enormously from these investment decisions by learning through a long, long period. Every time you avoid a new person, that's never had a big capital allocation experience, it's like rolling the dice. And I think we're way better all having done this it so long. And -- but the decision's blend and the one feature that comes through is the continuous learning. If we had not kept learning, you wouldn't even be here. You'd be alive probably, but not here.

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

There's nothing like the pain of being in a lousy business, make you appreciate a good one.

Charles Thomas Munger
Vice Chairman

Well, as long as we're getting into a really good one, that's a very positive experience and it's a learning experience. I have a friend who says, the first rule of fishing is to fish where the fish are, and the second rule of fishing is to never forget the first rule. And we've gotten good at fishing where the fish are.

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

Yes, that's only metaphorically. I like to fish with Charlie. But I mean...

Charles Thomas Munger
Vice Chairman

There are too many other boats in the d*** water, but the fish are still there.

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

Yes. We bought a department store in Baltimore in 1966, and there's really nothing like being inexperience of trying to decide whether you're going to put a new store in an area that hasn't really developed yet enough to support it, but your competitor may move there first. And then you have the decision on whether to jump in, and if you jump in, that kind of spoils and now you got 2 stores where even one store isn't quite justified. How to play those games, those business games, you learn a lot by trying, and what you really learn is which ones to avoid. I mean, if you just stay out of a bunch of terrible businesses, you're off to a very great start because we've tried them all.

Charles Thomas Munger
Vice Chairman

But you really learn because the experience is a lot like eating [cockle] burgers, and it really gets your attention.

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

But we won't expand on that. Andrew Ross Sorkin?

Andrew Ross Sorkin

This question comes from a longtime shareholder, who, I should tell you, accosted me last night in the lobby of the Hilton Hotel with this question. Warren, for years, you stayed away from technology companies saying they were too hard to predict and didn't have moats. Then you seemed to change your view about technology when you invested in IBM, and again, when you recently invested in Apple. But then on Friday, you said IBM had not met your expectations and sold 1/3 of our stake. Do you view IBM and Apple differently? And what have you learned about investing in technology companies?

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

Well, I do view them differently, but obviously, when I bought the IBM, started buying it 6 years ago, I thought it would do better in the 6 years that have elapsed than it has. And Apple, I regard them as being quite different business. I think Apple was much more of a consumer products business. In terms of the -- in terms of sort of analyzing moats around it and consumer behavior and that sort of thing, it's obviously a product with all kinds of tech built into it. But in terms of laying out what their prospective customers will do in the future as opposed to, say, an IBM's customer, it's a different sort of analysis. It doesn't mean it's correct, and we'll find out over time. But they are 2 different types of decisions. And I was wrong on the first one, and we'll find out whether I'm right or wrong on the second. But I do not regard them as apples-and-apples, and I don't quite regard them as apples and oranges. It's somewhat in between on that. Charlie?

Charles Thomas Munger
Vice Chairman

Well, we avoided the tech stocks because we felt we had no advantage there and other people did. And I think that's a good idea not to play where the other people are better. But if you ask me in retrospect what was our worst mistake in the tech field, I think we were smart enough to figure out Google. Those ads worked so much better in the early days than anything else. So I would say that we failed you there. And we were smart enough to do it and didn't do it. We do that [all the] time, too.

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

Yes. We were their customer very early on with GEICO, for example. And we saw -- I don't -- these figures are way out of date, but as I remember, we were paying them $10 or $11 a click or something like that. And anytime you're paying somebody $10 or $11 every time, somebody just punches a little thing where you got no cost at all. That's a good business unless somebody's going to take it away from you. And so we were close up seeing the impact of that. And incidentally, if any of you don't have anything to do in your hotel rooms tonight, just keep punching Progressive or something. Don't really do that. The thought just happened to cross my mind. But that is -- you've never seen a business -- almost never seen a business like it, where -- and I think for LASIK surgery and things like that, I think the figures were $60 or $70 a click with no incremental -- no cost.

So -- and I know the guys. I mean, I actually designed their prospectus, they came to see me. And they -- a little bit after the original one, when they went public, a little bit after Berkshire, even. And so I had plenty of ways to ask questions or anything of that sort, educate myself, but I blew it.

Charles Thomas Munger
Vice Chairman

We blew Walmart, too. It was a total cinch. We were smart enough to figure that out, and we just didn't.

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

Yes, figuring out, execution is what counts. So anyway -- and I could be making 2 mistakes on IBM. I mean, the -- it's harder to predict, in my view, the winners in various items or how much price competition will enter into something like cloud services and all that. I made a statement the other day, which -- it's really remarkable. And I asked Charlie whether you could think of a situation like that where one person has built an extraordinary economic machine in too many pretty different industries almost simultaneously has happened.

Charles Thomas Munger
Vice Chairman

From a standing start at 0.

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

From a standing start at 0, with competitors with lots of capital and everything else, to do it in retailing and to do it with the cloud like Jeff Bezos has done. I mean, people like the Mellons invested in a lot of different industries and all of that. But he has been, in effect, the CEO simultaneously of 2 businesses starting from scratch. That if -- Andy Grove used -- at Intel used to say, "Think about if you have a silver bullet and you could shoot it and get rid of one of your competitors, who would it be?" Well, I think that both in the cloud and in retail, there are a lot of people that would aim that silver bullet at Jeff. And he's on a -- it's a different sort of game. But the Washington Post, he's played that hand as well as anybody I think possibly could. So it's a remarkable business achievement where he's been involved actually in the execution, not just bankrolling it, of 2 businesses that are probably as feared by their competitors, almost, as any of you can find. Charlie, any further thoughts?

Charles Thomas Munger
Vice Chairman

Well, Berkshire, they're like the Mellons, old-fashioned people who've done all right. And Jeff Bezos is a different species.

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

And we missed it entirely, incidentally. We never owned a share of Amazon. Okay, Gregg Warren?

Greggory Warren
Morningstar Inc., Research Division

My question relates to some recent stock purchases as well. Unlike the railroads, which benefit from colossal barriers to entry due to their established, practically impossible to replicate networks of rail and rights of way, the airline industry seems to have few, if any, advantages. Even with the consolidation we've seen during the past 15 years, the barriers to entry are few and the exit barriers are high. The industry also suffers from low switching cost and intense pricing competition and is heavily exposed to fuel costs, with rising fuel prices being difficult to pass on and declining fuel prices leading to more price competition, comparing this with rail customers who have few choices and thus wield limited buying power and where fuel charges allow the industry to mitigate fuel price fluctuations. While you've noted several times since the airline stock purchase were announced that the 2 industries are quite different and that comparison should not be made to Berkshire's move into railroad a decade ago, could you walk us through what convinced you that the airlines were different enough this time around for Berkshire to invest close to $10 billion in the 4 major airlines? Because it would seem to me that UPS, which you have a small stake in, and FedEx, both of which have wider economic moats built on more identifiable and durable competitive advantages, would be a better option for long-term investors.

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

Yes. The decision in respect to airlines had no connection with our being involved in the railroad business. I mean, you can classify them maybe as a transportation business or something, but it had no connection, no more connection than the fact we own GEICO or any other business. You couldn't pick a tougher industry ever since Orville went up and I said that if anybody is even thinking about investors, they should have Wilbur shoot him down, you save everybody a lot of money for a hundred years. You can go to the Internet, type in airlines and bankrupt, and you'll see that something like 100 airlines in that general range going bankrupt in the last few decades. And actually, Charlie and I were directors for some time of US Air, and people write about how -- we had a terrible experience in US Air. It was one of the dumbest things I've ever done, and there's a lot...

Charles Thomas Munger
Vice Chairman

You made a lot of money out of it, too.

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

Yes, and we made a lot of money out of it. But we made a lot of money out of it because there was one little brief period when people got all enthused about US Air. And after we left as directors and after we sold our position, US Air managed to go bankrupt twice in the subsequent period. You've named all of the -- not all of them, but you've named a number of factors that just make for terrible economics. And I will tell you that if capacity -- it's a fiercely competitive industry, the question is whether it's a suicidally competitive industry, which it used to be. I mean, when you get virtually every one of the major carriers and dozens and dozens and dozens of minor carriers are going bankrupt, it ought to come a point you'll find that maybe you're in the wrong industry. It has been operating for some time now at 80% or better of capacity being available, seat miles. And you can see what deliveries are going to be in that sort of thing. So if you make -- I think it's fair to say that they will operate at higher degrees of capacity over the next 5 or 10 years than the historical rates, which caused all of them to go broke. Now the question is whether, even when they're doing it in the 80s, they will do suicidal things in terms of pricing, remains to be seen. They actually, at present, are earning quite high returns on invested capital. I think higher than even FedEx or UPS, if you actually check that out. But that doesn't mean, tomorrow morning, if you're running one of those airlines and the other guy cuts his prices, you cut your prices, and as you say, there's more flexibility when fuel goes down to bring down prices than there is to raise prices when prices go up. So the industry -- it is no cinch that the industry will have some more pricing sensibility in the next 10 years than they had in the last 100 years, but the conditions have improved for them. They got more labor stability than they had before because they're basically all going to -- they have gone through bankruptcy and they're all going to sort of have an industry pattern, bargaining it looks to me like they're going to have a shortage of pilots to some degree. But it's not like buying See's Candy. Charlie?

Charles Thomas Munger
Vice Chairman

No, but the investment world has gotten tougher with more competition, more affluence and more absolute obsession with finance throughout the whole country. And we've picked up a lot of low-hanging fruit in the old days where it was very, very easy and we had huge margins of safety. Now we operate with a less advantageous general climate, and maybe we have small statistical advantages, where in the old days it was like shooting fish in a barrel, but that's all right. It's okay if it gets a little harder after you get filthy rich.

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

Charlie is more philosophical than I am on that point.

Charles Thomas Munger
Vice Chairman

I can't bring back the low-hanging fruit, Warren, you're just going to have to keep reaching for the higher branches.

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

Gregg, the -- I don't -- I think the odds are very high that there are more revenue passenger miles 5 years from now or 10 years from now. If the airlines -- if the airline companies are only worth, 5 or 10 years from now, what they're worth now in terms of equity, we'll get a pretty reasonable rate of return because they're going to buy in a lot of stock at fairly low multiples. So if the company is worth the same amount at the end of the year and there's fewer shares of stock outstanding and, over time, we make decent money at all 4 of the major airlines are buying in stock at a...

Charles Thomas Munger
Vice Chairman

You got to remember that the railroads were a terrible business for decades and decades and decades, and then they got good.

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

Yes. It -- we like -- I like the position. Obviously, by buying all 4, it means that it's really hard to distinguish who will do the -- at least in my mind, it's hard to distinguish who will do the best. I do think -- I think the odds are quite high that if you take revenue passenger miles [falling] 5 or 10 years from now, it will be a higher number, and that will be -- there will be low-cost people who come in and the Spirits of the world and JetBlues, whatever it may be, but my guess is that all 4 of the companies we have will have higher revenues. The question is what their operating ratio is. They will have fewer shares outstanding by a significant margin. So even if they're worth just what they're worth today, we could make a fair amount of money. But it is no cinch, by a long shot. Okay, Station 3.

Unknown Attendee

My name is [Sevela Arianz], I'm from Germany, and I'm a member of Board of Ethecon Foundation, Ethics and Economy. I'm very happy that I can put my question here, and maybe you are not as happy as I am to listen to it.

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

Well, we'll try to stay happy. Thank you for coming.

Unknown Attendee

Mr. Buffett, a few years ago, I saw a movie in which you proclaimed that the printout in the dollar bill "In God We Trust" does not really oppress your philosophy. In your opinion, only cash pounds and your credo is "In The Dollar I Trust".

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

I don't think I've ever said that, actually, but...

Unknown Attendee

I can show you the movie, that will prove.

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

Show me a clip.

Unknown Attendee

Maybe it was just joking, but always behind a joke, there is also truth. So -- while you laughed heartily at that moment. You, as one of the most richest men of all times on this earth, a humored, a good-humored, friendly, elderly gentleman. Whatever motivated those who designed the dollar notes, they certainly wanted to say that there is something higher than value of this printed paper. Regrettably, you have shown many times in your life that you see this differently. You have accumulated billions of dollars, showed extraordinary cleverness and skill, and you know better to pick up than many others, who like you, use the rules which are inherent to capitalism for their own intentions. But have you ever given a thought to what troubles and sacrifices slavery and destruction of Mother Earth and even diseases and death stick to the dollar bills, which you gather so eagerly. Let's take Coca-Cola. Ethecon Foundation, Ethics and Economy from Germany has awarded the Black Planet Award to the members of the Board of Directors as well as to the large shareholders, Warren Buffett and Herbert Allen, because you are co-responsible for all of what makes this group make so much money, isn't it? Among other things, Coca-Cola deprives people their drinking water...

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

Well, at some point...

Unknown Attendee

In drought-prone areas of the world.

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

Well, I'm answering your question.

Unknown Attendee

And many bottlers contaminate the ground water in these areas.

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

I don't want to interrupt you, but are you making a speech or asking a question?

Unknown Attendee

I put my question right now.

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

Okay, good.

Unknown Attendee

Will you give up your Coca-Cola shares if the destruction of the environment, the monopolization of the right to healthy drinking water and the shameless exploitation of the workers continue?

Charles Thomas Munger
Vice Chairman

Well, that's more of a speech than a question.

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

Yes. Yes. Well, I don't think that quote you had earlier, I have said once or twice that it should say, "In the Federal Reserve, we Trust", because they print the money and if they print too much of it, it could decline in value. But I have -- I had never -- to my knowledge, I've never said anything like you originally said. And I would say this, I think, I think have been eating things I like to eat all my life. And Coca-Cola, just

Coca-Cola's 12 ounces, I drink about 5 a day. It has about 1.2 -- it has about 1.2 ounces of sugar in it. And if you look at what people -- different people get their sugar and calories from, they get it from all kinds of things. I happen to believe that I like to get 1.2 ounces with this, and it's enjoyable. Since 1886, people have found it pleasant. And I would say that if you pick every meal in terms of what somebody and some recent publication has told you is the very best for you, I offer you that -- I say go to it. But if you told me that I would live 1 year longer, and I don't even think of it, I would live 1 year longer if I eat not nothing but broccoli and asparagus and everything my Aunt Alice wanted me to eat all my life, all right I'd eat everything I enjoyed eating, including chocolate Sundays and Coca-Cola and steak and hash browns, I would rather eat in a way I enjoy for my whole life than eat some other way and live another year. And I do think that choice should be mine. If somebody decides sugar is harmful, they'd even encourage the government to ban sugar, but sugar and Coca-Cola is -- -- there's not any sugar put on my Grape-Nuts in the morning or whatever else I'm having. So I think Coca-Cola has been a very, very positive factor in America for -- and the world for a long, long time. And you can look at the list of achievements of the company. And I really don't want anybody telling me I can't drink it. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I've solved my Coca-Cola problem by drinking Diet Coke, and I swallow those stuff like other people swallow I don't know what and I've been doing it for just as long as you've been taking all those Coca-Colas that are -- I've had breakfast before and he has Coca-Colas and nuts.

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

And pretty d*** good, too.

Charles Thomas Munger
Vice Chairman

If you keep doing that, Warren, you may not make 100.

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

Well, I think there is something in longevity to feeling happy about your life, too.

Charles Thomas Munger
Vice Chairman

Absolutely.

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

Okay, Carol.

Carol Loomis

This question is from [Franz Tromburger] of Austria, and it concerns intrinsic value, which is neither, Warren -- he may amend my definition here, but which is neither a company's accounting value nor its stock market value, but is rather its estimated real value. So the question is, at what rate has Berkshire compounded intrinsic value over the last 10 years? And at what rate, including your explanation for it, please, do you think intrinsic value can be compounded over the next 10 years?

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

Intrinsic value can only be calculated, or gains, in retrospect. But the intrinsic value, pure definition, would be the cash to be generated between now and Judgment Day, discounted at an interest rate that seems appropriate at that time, and that's varied enormously over a 30- or 40-year period. If you pick up 10 years and you're back to May of 2007, we had some unpleasant things coming up, but I would say that we've probably compounded about 10%, and I think that's going to be tough to achieve, in fact almost impossible to achieve, if we continued in this interest rate environment. That's the number one -- if you asked me to give the answer to the question, if I could only pick one statistic to ask you about the future before I gave the answer, I would not ask you about GDP growth, I would not ask you about who's going to be President, a million things I would -- I would ask you what the interest rate is going to be over the next 20 years, on average, the 10 year or whatever you wanted to do. And if you assume our present interest rate structure is likely to be the average over 10 or 20 years, then I would say it would be very difficult to get to 10%. On the other hand, if I were to pick with a whole range of probabilities on interest rates, I would say that, that rate might be -- it might be somewhat aspirational and it might -- well, it might be doable, and you would say, "Well, we can't continue these interest rates for a long time." I would ask you to look at Japan, where 25 years ago, we couldn't see how their interest rates could be sustained, and we're still looking at the same thing. So I do not think it's easy to predict the course of interest rates at all. And unfortunately, predicting that is embedded in giving a good answer to you. I would say the chances of getting a terrible result in Berkshire are probably low as about anything you can find. The chance of getting a sensational result are also about as low as anything as you can find. So if I -- I would -- my best guess would be in the 10% range, but that assumes somewhat higher interest rates, not dramatically higher, but somewhat higher interest rates in the next 10 or 20 years than we've experienced in the last 7 years. Charlie?

Charles Thomas Munger
Vice Chairman

Well, there is no question about the fact that the future with our present size is in terms of percentage rates of return, it's going to be less glorious than our past. And we keep saying that and now we're proving it.

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

Do you want to end on that note, Charlie or would you share...

Charles Thomas Munger
Vice Chairman

Well I do think Warren has been right about one thing. I think we have a collection of businesses that on average has better investment values than say the S&P average. So I don't think you shareholders have a terrible, terrible problem.

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

Yes. And I would say, we probably, well I'm sure, not probably, we have a -- we do have more of a shareholder orientation than the S&P 500 as a whole. I mean, yes -- this company has a culture where decisions are made for -- as an owner, as a private owner would make them. And frankly, that's a luxury we have that many companies don't have. I mean, they are under pressures today, sometimes to do things. One of the questions I ask the CEO of every public company that I meet is what would you be doing differently if you owned it all yourself? And the answer is usually this, that and a couple of other things. If you would ask us, the answer is, we're doing exactly what we would do if we own them all, all the stock ourselves and I think that's a small plus over time. Anything further, Charlie?

Charles Thomas Munger
Vice Chairman

I think we have one other advantage. A lot of other people are trying to be brilliant and we're just trying to stay rational. And -- and it's a big advantage. Trying to be brilliant is dangerous, particularly when you're gambling.

Warren E. Buffett

Chairman of the Board and Chief Executive Officer

Okay. Jonathan?

Jonathan Brandt

If corporate tax rates are reduced meaningfully, Berkshire will enjoy a one-time boost to book value because of its sizable deferred tax liability and its go-forward earnings should be higher too at least in theory. How much of the reduced tax rate will be passed along to Berkshire's customers through, for instance, lower electricity rates or lower railroad shipping rates and how much will go to Berkshire shareholders?

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

Yes, the question is, in the case of our utility businesses, all benefit of lower tax rates goes to customers, and it should be, because we are allowed a return on equity, in general. I mean, I'm simplifying it a little bit. But we are allowed a return on equity risk, computed on an after-tax basis and the utility commissions would -- if taxes were raised, would presumably give us higher rates to compensate for that and if taxes are lowered, they would say, you're not entitled to make more money just because tax rates -- on equity because tax rates have been lowered. So forget about the utility portion of the deferred taxes. The deferred taxes that are applicable to our unrealized gains and securities, we would get all the benefit of, because I mentioned we had $90 billion-plus of unrealized gains. And if the rates were changed on those, in either direction, our owners, dollar-for-dollar, will participate in that. And then you get into the other businesses you mentioned, the railroad, but it can be all of other businesses. To some extent, if tax rates are lowered, different degrees and different industries, depending on the number of players, the competitive conditions, some of it may -- some of it almost certainly gets competed away and some of it would likely not be competed away. And that's that -- economists can argue about that a lot, but I've seen it in action in a lot of cases. You got a big decline in rates, for example, in the U.K. And we've had them -- over my lifetime, we had 52% corporate rates, we've got a lot of different numbers, so I have seen how behavior -- economic behavior works. And I would say that it's certain that some of any lower rate would be competed away, and it's virtually certain that some wouldn't be to the benefit of the shareholders. And it's very industry and company-specific in how that plays out. Charlie?

With dollar-for-dollar, I mean there's 90 -- $90 billion or $95 billion, if the rate were to drop 10%, that $9.5 billion is, by 10 percentage points, that $9.5 billion is real. On the other hand, if it goes up as it did, went up from 28% to 35%, they can take it away from us, too.

Charles Thomas Munger
Vice Chairman

Well, I think it's peculiar in one way. If things go to hell in a handbasket and then get better later, we are likely to do better than most others. And we don't wish for that. And we don't want our country to have to suffer through it. And we fear what might happen if the country went through the ringer like that. But if that real adversity comes, we're likely to do better in the end, we are good at navigating through that kind of stuff.

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

And occasionally, there will be...

Charles Thomas Munger
Vice Chairman

In fact we are quite good at it.

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

There will be occasional hiccups in the American economy, doesn't have much to do with who's President or anything like that, those people may get blamed or given credit for different things, but it's just that it is the nature of market systems to occasionally go haywire in one direction or other, it's been here with us, it will be here with us, it's not -- it does not have a -- there is not a -- it's not on a regular sine wave type picture or anything of that sort, but it's certain to happen from time to time. And we will probably have a fair amount of money and credit at that time, and we certainly -- we're not affected. When the rest of the world is fearful, we know America's going to come out fine. And we will not have a trouble, any trouble psychologically acting at all. And the question is, how much do we have in the way of resources? Well, also never put the company in any kind of risk just because we see a lot of opportunities. We'll grab all the ones we can that we can handle and not lose a day of sleep.

Unknown Attendee

[indiscernible]

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

I didn't quite get that but I -- in any event, we will now go to Station 4 and if the person yelling out -- we have [Brandt] on Station...

Bruce M. Hertz, MD

Dr. Bruce...

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

We have [Brandt] on Station -- you're on Station 4?

Bruce M. Hertz, MD

Dr. Bruce Hertz from Glenview, Illinois. I wanted to thank you for allowing me to attend. I feel both honored and blessed. My question for Mr. Buffett is, you've always advised us to purchase equities that appreciate in value. Yet a few years ago, you sold your used Cadillac at a tremendous profit. How can you justify selling a depreciating asset for a significant profit? Thank you.

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

Yes. Actually, I gave it to Girls, Inc. and they sold it. And it was kind of an interesting -- a very nice guy bought it for $100,000-and-some. And I did not -- and Girls Inc. got the money. And he got into -- he came later actually with his family and he drove it away without any plates. He was driving back to New York, and he got picked up by the police in Illinois. And he said, well -- he started giving his explanation about how he given his money to Girls Inc. and was driving the car back, he had this nice looking family with him. And the cops were quite skeptical. But fortunately, I had signed the dashboard for him as part of the deal when he -- and so they looked at that and then they just said, well, did he give you stock tips and they let him go home. I can't recall ever selling a used car at a profit. But we -- I don't think I've ever sold any personal possession. Well I've got a house...

Charles Thomas Munger
Vice Chairman

You don't have any personal possessions.

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

Yes, yes. No. I -- anything you see with a figure attached like that...

Charles Thomas Munger
Vice Chairman

You're a fatter version of Mohandas Gandhi.

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

That was a very nice guy that bought it, and his check cleared, so we were fine. Becky?

Becky Quick

I'd like to ask a question that can serve as a follow-up to the question that Carol had asked. And Charlie, in that response said that he thinks that Berkshire's businesses on the whole will do better than the S&P 500. [Clark Cameron] from Birmingham, Alabama who owns 281 shares of Berkshire B writes in and asks, why have you advised your wife to invest in index funds after your death rather than Berkshire Hathaway? I believe Munger has counseled his offspring to "not be so dumb as to sell?"

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

She won't be selling any Berkshire to buy the Index funds. All of my Berkshire, every single share, will go to philanthropy. So that I don't even regard myself as owning Berkshire, basically. It's committed. And so far, about 40% has already been distributed. So the question is, somebody who is not an investment professional, will be, I hope reasonably elderly, by the time that the estate gets settled, and what is the best investment, meaning one that there would be less worry of any kind connected with unless people coming around and saying, why don't you sell this and do something else and all those things. She's going to have more money than she needs. And the big thing then you want is money not to be a problem. And there will be no way that if she holds the S&P, virtually no way absent, something happened with weapons of mass destruction, but virtually no way that she won't -- she will have all the money she possibly can use to have a little liquid money so that if stocks are down tremendously at some point, they close the Stock Exchange for a while or anything like that, she's still feel that she's got plenty of money. And the object is not to maximize. It doesn't make any difference whether the amount she gets doubles or triples or anything of the sort. The important thing is that she never worries about money the rest of her life. And I had an Aunt Katie, here in Omaha, who Charlie knew well, had worked for her husband as did I. And she worked very hard all her life and had lived in a house she paid, I think, I don't know, $8,000 for 40 bits in Hickory, all her life. And because she was in Berkshire, she ended up -- she lived to 97, she ended up with a few hundred million. And she would write me a letter every 4 or 5 months and she said, Dear Warren, I hate to bother you, but I am I going to run out of money? And I would write her back and I'd say, Dear Katie, it's a good question because if you live 986 years, you're going to run out of money. And then about 4 or 5 months later, she'd write me the same letter again. And I have seen there's no way in the world that you've got plenty of money that it should become a minus in your life. And there will be people who got lot of money that come around with various suggestions for you, sometimes well-meaning, sometimes not so well-meaning. So if you got something that's certain to deliver, it was all in Berkshire, they say, well if Warren was alive today and he would be telling you to do this, I just don't want anybody to go through that. And the S&P will be -- I think actually what I'm suggesting is, what a very high percentage of people should do something like that. And I don't think they will have as -- I think there is a chance they won't have as much peace of mind if they own 1 stock and they've got neighbors and friends and relatives that are trying to induce them, like I said, sometimes well-intentioned, sometimes otherwise, to do something else. And so I think it's a policy that got good result and is likely to stick. Charlie?

Charles Thomas Munger
Vice Chairman

Well, as Becky said, [indiscernible] I want to hold to Berkshire.

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

I want to hold to Berkshire, too.

Charles Thomas Munger

Vice Chairman

No, I bet -- I mean I don't like the fact -- I recognize the logic of the fact that S&P algorithm is very hard to beat. Diversified portfolio, big companies, it's all but impossible for most people. But it's -- I'm just more comfortable with the Berkshire.

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

Well, it's the family business.

Charles Thomas Munger
Vice Chairman

Yes.

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

But I've seen too many people as they get older particularly being susceptible of just having to listen to the arguments of people coming...

Charles Thomas Munger
Vice Chairman

Well if you are going to protect your heirs from the stupidity of others, you may have some good system. But I'm not much interested in that subject.

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

Okay. Jay?

Jay H. Gelb
Barclays PLC, Research Division

Berkshire reportedly partnered with 3G and Kraft Heinz's attempt to acquire Unilever for $143 billion. How much was Berkshire willing to invest in this deal? And does this mean Berkshire's next large acquisition is likely to be in partnership with 3G?

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

Well, Kraft Heinz -- you have to distinguish between 2 situations. Kraft Heinz was a widely owned company in which, we, and 3G, act as a control group, and have a little over 50% of the stock. But as originally contemplated in no certainty that is exactly is what were to happen, we would have invested an additional $15 billion and 3G would have invested an additional $15 billion if a friendly agreement could have been reached. So if the deal had been made, if the independent directors of Kraft Heinz had approved the transaction, the likelihood -- well then the likelihood is that we would have invested $15 billion. But it would have required the approval of the independent directors as well. Now Kraft Heinz, in going forward with making that offer, wanted to be sure that there would be enough equity capital in addition to the debt that would be incurred to make the deal. And so informally, we had basically committed the $15 billion. It only was approved on the basis there would be a friendly deal with Unilever. And initially we thought they would be at least possibly interested in such a deal. And when we found out otherwise, we withdrew the offer. So it would've been $15 billion of additional money in all probability. Okay, Station 5?

Unknown Attendee

Dear, Honorable Mr. Buffett and Mr. Munger, I'm [indiscernible] from China. My company, 8i Holdings is spreading value investing philosophy in Asia. My business partner, Ken Chee, [indiscernible] and I are committed to awake 100 million Chinese people to return to rational way of investing. The hardest thing in this world is to change people's values or belief system, and we should like to awake investors to change from speculate in the market to investing in the market. It's life-changing that speculators' values or belief system. May I ask you, Mr. Buffett, can you kindly advise us what we should do to spread your value investing philosophy? Or is there any word of encouragement?

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

Yes. The -- when -- in any system, Keynes wrote about this in 1936, I think, it was in The General Theory -- or '35, I think it's chapter 12, what is best is, great chapter on investing, and he talked about investment, and speculation and the propensity of people to speculate and the dangers of it and worded eloquently. There's always the possibility of -- I mean there's always some speculation, obviously and there is always some value investors and all that sort of thing in the market. But there's -- when speculation gets rampant and when you're getting what I guess Charlie would call social proof, that has worked recently, people can get very excited about speculating in markets. And we will have it from time to time in this market. There's nothing more agonizing than to see your neighbor who you think has an IQ about 30 points below you getting richer than you are by buying stocks. And whether it's Internet stocks or whatever. And people succumb to it. And they'll succumb in this economy just as elsewhere. There's also a point which, leads to your question, I would say that early on in the development of markets, there's probably a -- there's some tendency for them, I think, to be more speculative than markets that have been around for a couple of hundred years. Because it has a invest -- markets have a casino characteristic that has a lot of appeal to people, particularly when they see, like I said, people getting rich around them. And those who have been through cycles before are probably a little more prone to speculate than people who have experienced the outcome of wild speculations. So I -- basically, in this country, Ben Graham was -- in the book I read in 1949 was preaching investment. And that book continues to sell very well. But if the market gets hot, the wishers are doing well and people on leverage are doing well, a lot of people will be attracted to not only to speculation but what I would call gambling. And I'm afraid that, that will be true in the United States. And I'd think that China, being a newer market, essentially in which there's widespread participation, is likely to have some pretty extreme experiences in that respect. We will have some in this country, too. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I certainly agree with that. The Chinese will have more trouble. As bright people have a lot of action and sure, they're going to be more speculative. And it's a dumb idea, and to the extent you are working on it, you're on the side of the angels, but lots of luck.

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

Well, it will offer the investor more opportunities, actually if they can keep their wits about them. If you have wild speculation and we -- Charlie just mentioned earlier, if we get into periods that are very tough, Berkshire certainly will do reasonably well because it won't -- we won't get fearful. And fear spreads like you cannot believe until you've seen a few examples of it. At the start of September 2008, you have 35 million people with their money in money market funds with $3.5 trillion in them. And none of them were afraid that, that dollar wasn't going to be $1 when they went to cash in their money market fund. And 3 weeks later, they were all terrified and then $175 billion flowed out in 3 days. So the way the public can react is really extreme in markets and that actually offers opportunities for investors. You'll never -- people like action and they like to gamble. And if they think there's easy money to be made, a lot of them, you get a rush to it. And for a while, it will be self-fulfilling and create new comforts -- converts until the day of reckoning comes. Just keep preaching, investing. And if the markets swings around a lot, you'll keep adding a few people here and there to a group that recognizes that markets are there to be taken advantage of rather than to instruct you as what's going on. Okay. Andrew? Any more on that side of the...

Charles Thomas Munger
Vice Chairman

We've done a lot of a preaching, Warren, but not much effect.

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

Right. And that's probably good from our standpoint. Okay. Andrew?

Andrew Ross Sorkin

This question comes from [Ryan Prince]. President Donald Trump and his advisers have talked about proposing a substantial investment tax credit to provide incentives for long-term corporate fixed capital investment. In BNSF, Berkshire owns a sprawling infrastructure portfolio requiring regular routine maintenance investment of substantial scale. What impact would an investment tax credit have on BNSF's capital investment decision-making from a return on investment capital perspective as well as in terms of timing? And just as importantly, given the current economy and employment picture, would such a tax credit amount to a subsidization of otherwise mandatory maintenance capital investment or a proper incentive to stimulate investment?

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

Yes, well it would all depend on how this would work, because we've had investment tax credits in this country and we've had -- we've got bonus depreciation in other form of it. And we do get extra first year depreciation. That does not enter into our calculation very much. In fact, certainly, at the Berkshire level, I've never instructed anybody to do anything different because of the investment tax credits or accelerated depreciation. There may be some calculations done out at the operating company level. It's certainly true in something like the wind projects and solar projects. They are dependent on the tax law currently. There may come in time when they aren't, but they wouldn't have been done without some subsidization through the tax law. But I would say if you change the depreciation schedules and double depreciation,

triple depreciation, that we are going to do what we need to do at the railroad to make it safer and more efficient if we just had ordinary depreciation. And I doubt if there'd be any dramatic differences. Obviously if you were going to, say, buy a bunch of planes and the law was going to change on December 31, and the math made it better to wait until January 1 or do it this December 31, we didn't make that kind of calculation. But I can't recall, in all the years that I've ever sent out anything to our managers saying, let's do this because the tax law is being changed or might be changed or something of the sort. As I mentioned earlier, a change is just a little bit, if you think there is going to be a change in capital gains rates at a given time, obviously, it's going to -- the rate is going to be lowered, you would take losses ahead of time and defer gains may be a little. And that's why it's useful actually if the tax committees in Senate and the House are working on something. It might be useful if the chairmen would say that if we do make any changes, we're likely to use this effective date or something of the sort. And I think they've done that a few times in the past. We are not -- the big tax-driven item is in wind and solar, and that is a specific policy because the government has decided they want to move people or society -- they want move people toward those forms of electric generation and the market system wouldn't do it. And they may come a time when the market system will do it all by itself. We won't make big changes. And it's so speculative anyway in terms of even what the law would be. But beyond that, it becomes less speculative as the law, I mean it even looks like something is going to, it doesn't change this big time at all. Charlie?

Charles Thomas Munger
Vice Chairman

Nothing to add. We're not going to change anything at the Berkshire -- at the railroad for some little tax jiggle.

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

If we need a bridge repair, we're going to repair the bridge. We need a lot of track maintenance all the time and that sort of thing. And it's just -- I don't think Matt and I've ever had a talk about it since we've owned the railroad. Gregg?

Greggory Warren
Morningstar Inc., Research Division

Warren, my question also relates to Burlington Northern. Despite the current administration's belief that they can bring the coal industry back, market forces continue to lead to the industry's demise. While 90% of U.S. coal consumption is driven by electricity generation, natural gas has been both cheaper and cleaner burning, and renewable electricity generation has remade parts of the markets as wind and solar have gained scale and become cheaper alternatives. This has created problems for Burlington Northern with coal shipments accounting for just 18% of volume and revenue for the railroad last year, down from an average of 24% for both measures the previous 10 years. While some of this was due to a large build-up of coal supply the past couple of winters, which finally seem to be working their way out, what are your expectations for the contribution coal can make to BNSF longer-term? And I know that the rail will currently handles some export shipments going through Canada to specific coast ports, but will there be enough growth there to offset domestic demand? Or will be BNSF need to rely more heavily on segments like intermodal to offset lost coal volumes?

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

Yes, the answer is, coal is going to be down over time, I don't think there's much question about that. The specifics of any given year relate very importantly to the price of natural gas. I mean right now, they're -- the demand is somewhat up, fair amount up from last year because natural gas is at $3.15 or $3.20 and the utilities can produce electricity, in many cases, quite a bit cheaper with coal than with natural gas. Whereas with the $2, it would all be -- it would be natural gas. But over time, coal is -- in my mind is essentially certain to decline as a percentage of the revenue of the railroad. The speed at which it does, you don't build -- create generation plants overnight. And so I can't predict the rate. And if natural gas is cheap enough, it's going to be -- you'll see a big conversion back to the natural gas. Well, coal is a -- coal is going to go down as a percentage of revenues significantly, certainly over 10 years, it will be quite significant, who knows exactly year-by-year. We are looking for other sources of growth than coal. If you're tied to coal,

you got problems. Charlie?

Charles Thomas Munger
Vice Chairman

Well, you got -- over the extremely long term, I think that all hydrocarbons will be used, including all the coal. So I think that in the end these hydrocarbons are a huge resource for humanity and I don't think we've got any good substitute. And I've been reminded saving them for the next generation. I don't like using them up very fast. So I'm a -- I'm up on a little road on my own on this one. And people think that all these hydrocarbons are going to be stranded and the whole world's going to change. I think we're going to use every drop of the hydrocarbons sooner or later. We'll use them as chemical feedstocks. We'll -- it's -- I regard all these things as very hard to predict and I'm not at all sure of it. I would eventually expect natural gas to be pretty short in supply.

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

A change of storage would make a big difference. We will produce, within a few years, as much electricity in Iowa or virtually as much electricity in Iowa from wind as our customers use. But the wind only blows about 35% of the time or something like that. And sometimes, it blows too hard. But the storage, having a 24 hours a day, 7 days a week, is a real problem, even if we've got the capability of producing, like I say, a self-sufficient amount, essentially, in Iowa before very long. Coal -- our shipments of coal are up fairly substantially this year on the BNSF, but they were very low last year. And as you said, stockpiles grew and have come down somewhat. They're still on the high side. But in my mind, Charlie's got a longer-term outlook on this. In my mind, we're going to be shipping a whole lot less coal 10 or 20 years from now than we are now. I knew that and I think there's some decent prospects in other long hauls. I mean, it's a pretty cheap way to move bulk commodities long distance, rail is. And I think it's a good business, but the coal aspect of it is going to diminish. Okay. Station 6?

Unknown Attendee

It's [Marcus Burns] from Sydney Australia. My question, Mr. Buffett is, you used to buy capital-light, cash-generative businesses, but now buy low-growth, capital-consumptive businesses. I realize Berkshire generates a lot of cash flow, but which shareholders have been better off if you had continued to invest in capital-light companies?

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

Well, we'd love to find them. I mean, there's no question that buying a high return on assets, very light, capital-intensive business that's going to grow beats the hell out of buying something that requires a lot of capital to grow. And this varies from day to day, but I believe, and I don't think it's sufficiently appreciated. I believe that the -- probably the 5 largest American companies by market cap, and some days we're in that group, and some days we aren't. Let's assume we're not in that group, on a given day. They have a market value of over $2.5 trillion, and that $2.5 trillion is a big number. I don't know what the aggregate market cap of the U.S. market is, but that's probably getting up close to 10% of the whole market cap of the United States. And if you take those 5 companies, essentially, you could run them with no equity capital at all. None. That is a very different world than when Andrew Carnegie was building a steel mill and using the earnings to build another steel mill, and getting very rich in the process or Rockefeller was building refineries and buying tank cars. Generally speaking, over -- for a very long time in our capitalism, growing and earning large amounts of money required considerable reinvestment of capital and large amounts of equity capital. The railroads being a good example. That world has really changed and I don't think people quite appreciate the difference. You literally don't need any money to run the 5 companies that are worth collectively more than $2.5 trillion and who have outpaced any number of those names that were familiar if you looked at the Fortune 500 List 30 or 40 years ago, whether it was Exxon or General Motors or you name it. So we would love -- I mean there's no question that a business that doesn't take any capital and grows and has almost infinite returns on required equity capital is the ideal business. And we own a couple of businesses -- a few businesses that earn extraordinary returns on capital, but they don't grow. We still love them, but if they have -- if they were in fields that would growth, believe me, we wouldn't -- they would be #1 on our list. We aren't seeing those that we can buy and that we understand well. But you're absolutely right that, that's a far, far, far better way of laying out money than what we're able to do when buying capital-intensive businesses. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, the chemical companies of America at one time were wonderful investments. Dow and DuPont's sold at 20-some x earnings and they kept building more and more complicated plants and hiring more Ph.D. chemists. And it looked like they own the world. Now most chemical products are sort of commoditized. And it's a tough business being a big chemical producer. And in comes all these other people like Apple and Google and they're just on top of the world. I think the questioner is basically right that the world has changed a lot and that -- and the people who have made the right decisions and getting into these new businesses that are so different from the old ones have done very well.

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

Yes. Andrew Mellon would be absolutely baffled by looking at the high cap companies now. I mean, the idea that you could create hundreds of billions of value essentially without assets -- without tangible assets.

Charles Thomas Munger
Vice Chairman

Fast, fast.

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

Fast, yes. But that is the world. I mean, there's -- when Google can sell you something that where GEICO was paying $11 or something every time somebody clicks something, that is a lot different than spending years finding the right site and developing iron mines to supply the steel plants and railroads to haul the iron to where the steel is produced and distribution points and all that sort of thing. Our world was built when we first looked at it, our -- a lot of innovation and invention to essentially be able to build hundreds of billion of market value without really needing any -- the trend is I don't think the trend in that direction is over by a long shot.

Charles Thomas Munger
Vice Chairman

A lot of the people who are chasing that sort of thing very hard now in the venture capital field are losing a lot of money. It's a wonderful field, but not everybody's going to win big in it. A few are going to win big in it.

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

Okay. Carol?

Carol Loomis

This question is from a shareholder in California in the Silicon Valley area who didn't want his name mentioned because he said he wasn't looking for publicity, but whose picture makes him appear to be a millennial. Every Berkshire shareholder knows about the stock market value of Berkshire. But my question is about the value of Berkshire to the world. For instance, the value of Apple to the world has been iPhones. The value of GEICO is cost-effective auto insurance. The value of 3G, and I will tell you that there aren't all -- some shareholders who would be arguing about here, but the value of 3G is improved operations. But about Berkshire, I just don't know. In managing Berkshire subsidiaries, as Mr. Munger once famously said, you practice delegation just short of abdication. So hands-on management can't be the answer. That means the majority of Berkshire subsidiaries would do just as well if they were to stay independent companies. So that's my question. What is the value of Berkshire to the world?

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

Yes. Well, the -- I would say the question about -- I'm with him to the point where he says that -- which he accurately describes as delegation to the point of abdication, but I would argue that, that abdication actually, in many cases, will enable those businesses to be run better than they would if they were part of the S&P 500 and the targeted wrath of activists or somebody that wants to get some kind of a jiggle in the short term. So I think that our abdication actually has some very positive value on the companies. But that -- you have to look at it company by company that we've got probably 50 managers in attendance here. And naturally, they're not going to say anything public on television or anything where they knock us or anything. But get them off in a private corner and just ask them whether they think their business can be run better with a management by abdication from Berkshire, but with also all the capital strengths of Berkshire that when any project that makes sense can be funded in a moment without worrying whether the banks are still lending like in 2008 or whether Wall Street will applaud it or something of that sort. So I think our very -- our hands-off style actually, I think, can add significant value in many companies, but we do have managers here. You can -- you could ask about that. We certainly don't add to value by calling them up and saying that we've developed a better system for turning out additives of Lubrizol or running GEICO better than Tony and I actually couldn't run it or anything of this sort, but we do take a -- we have a very objective view about capital allocation. We can free manage is a -- I would say that we might very well free up at least 20% of the time of a CEO, in the normal public who would have -- otherwise have a public company, just in terms of meeting with analysts and the calls and dealing with banks and all kinds of things that essentially we relieve them of so they can spend all of their time figuring out the best way to run their business. So I think we bring something to the party, even if it -- even if we're just sitting here with our feet up on the desk. Charlie?

Charles Thomas Munger
Vice Chairman

Yes. We're trying to be a good example for the world. I don't think we'd be having these big shareholder meetings if there weren't a little bit of teaching ethos in Berkshire. And I've watched it closely for a long time. I'd argue that, that's what we're trying to do is set a proper example. Stay sane. Be honest. Yes. So I'm proud of Berkshire, and I don't worry too much that we sell Coca-Cola.

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

We -- I would say GEICO is an extraordinary well-run company and it would be extraordinarily well run if it were public. But it has gone from 2-and-a-fraction percent of the auto insurance market to 12%. And part of the reason, a small part, the real key is GEICO and Tony, actually. But the part of the reason is that when other -- at least 2 of our competitors, big competitors said that they would not meet their profit objectives if they didn't lighten up their interest in new business 8 or 10 months ago. I think our business decision to step on the gas is a better business decision, but I think that GEICO, as a public company would have more trouble making that decision than they do on their part of GEICO, because it -- we are thinking about nothing but where GEICO is going to be in 5 or 10 years. And if that requires having new -- we want new business cost to penalize earnings in the short term. And other people have different pressures. I'm not arguing with how they behave because they have a different constituency that GEICO has with Berkshire. And what Berkshire has with its shareholders in turn and I think, in that case our system is superior. But it's not because we work harder. Carl and I don't do hardly anything. Jonathan?

Jonathan Brandt

Could you please talk about your periodic payment annuity business? The weighted average interest rate on these contracts is 4.1%, which doesn't sound particularly attractive given the current interest rate environment. Is the duration of these liabilities long enough to make that an attractive cost of funds? Or were these contracts executed primarily when rates were higher?

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

Well, those contracts, these are what are called structured settlements primarily. And when somebody young has a terrible auto accident or whatever it may be, perhaps urged by the court, urged by family members who really do have the interest of the injured party at heart, they may convert what could be a large sum settlement probably against the insurance company, it'll maybe $1 million, maybe $2 million and do periodic payments for the rest of the life of the injured party. And we issue those for other insurance companies. In fact, sometimes the court directs that Berkshire or hints strongly that Berkshire should be the one to issue those because you're talking with somebody's life 30 or 40 or 50 years from now. And the court or the lawyer or the family, they want to be very, very sure that whoever makes that promise is going to be around to keep it. And Berkshire has a preferred position in that. We look -- to get to your question, Jonny, we look for taking the longer maturity situations. We always have. And we have to make assumptions about mortality, and we have to make assumption -- and then we have to decide at what interest rate will do it. The 4.1% is a mix of a lot of contracts over a lot of years, obviously. We write maybe $30 million of these, $20 million to $30 million a week, looking for the long maturities. And so if you take an average of 15 years or something of the sort, that's how we come up with that sort of a figure. We adjust them to the interest rates at all times. And when doing that, we're making an assumption that we're going to earn more money that -- than is inherent in the cost of these structured settlements. It's a business we've -- I think we've got $6 billion or $7 billion up now, and we'll keep doing them. And incidentally, probably a significant percentage of the $6 billion or $7 billion, we're not yet paying anything on. Somebody else may have the earlier payments, and they're certainly weighted far out. So it's a business that we'll be in 10 or 20 years from now. We've got some natural advantage because people trust us more than any other company to make those payments. And the test is whether we earn over time a return above that which we're paying to the injured party. And that's a bet we're willing to make. But if interest rates continued at present levels for a long time, we would -- assuming we kept the money in fixed-income instruments, we would -- we'd have some loss in that. We've got an allowance in there for the expenses incidentally of -- because we do make monthly payments to these people eventually. Then we have to keep track of whether they're still alive or not because you cannot count on the relatives of somebody that's deceased when the check is coming in every month to notify you promptly that the person has become deceased. But it's -- it will -- that number will go up over time. If interest rates stay where they are, that 4.1% will come down a little bit as we add new business. Okay. Station 7?

Unknown Attendee

Thank you, Mr. Buffett and Mr. Munger, for all you've done and the opportunity to learn even more from your approach to investing in life. My name is [Harry Hong] And I'm a respirologists from Vancouver, British Columbia. The question involves, back in 2001, you made an initial investment in USG shortly before the company declared bankruptcy due to the mounting asbestos liability. You held those shares through the bankruptcy process even though standard wisdom says that the equity in Chapter 11 is usually worthless. Can you explain why USG's equities was a safe investment?

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

Well, I don't really remember all the details then.

Charles Thomas Munger
Vice Chairman

It was very cheap.

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

We...

Charles Thomas Munger
Vice Chairman

Very cheap.

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

Yes. But I would say this, USG, we owned -- I'm not sure what percentage, but it's very significant percentage, I know.

Charles Thomas Munger
Vice Chairman

20% or something.

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

Probably 30% or something like that. But the -- USG overall, has just been disappointing because the gypsum business has been disappointing. And I think, I may be wrong, I think they went bankrupt twice as asbestos going back and then subsequently because they just had too much debt. So it has not been a brilliant investment. Now if gypsum prices were at levels that they were in some years in the past, it would've worked out a lot better.

Charles Thomas Munger
Vice Chairman

But it hasn't been terrible.

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

No, it hadn't been terrible. But if gypsum took -- has taken a real dive several times and there has been too much gypsum capacity, and then when it comes back, the -- managements have been, not necessarily USG, but including USG, perhaps, they've got more optimistic -- gotten more optimistic about future demand than they should have. And they like -- going back historically, right, they like to build new plants. And it's a business where the supply has been significantly -- potential supply has been significantly greater than demand in a lot of years. I mean, you've seen housing starts. And since 2008, '09, not come back anywhere near as much as people anticipated. So gypsum prices have moved up, but not dramatically. So just put that one down as not one of our great ideas -- not one of my great ideas. Charlie wasn't involved in that. It's no disaster though.

Charles Thomas Munger
Vice Chairman

No, it isn't.

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

Becky?

Becky Quick

This question -- hello?

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

Okay.

Becky Quick

This question comes from [Axel and Mayer Seek] in Germany. Who writes, if Ajit Jain were to retire, God forbid, be promoted, what would be the impact on the insurance operations both with regards to underwriting profit as well as the development of flow?

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

Well, nobody will -- could possibly replace Ajit, I mean, you just can't come close. But we have a terrific operation in insurance. We really do. Outside of Ajit -- and it's terrific squared with Ajit there are things only he can do. But there are a lot of things that are institutionalized, a lot of things in our insurance business, where we've got extraordinarily able management too. So Ajit for example, bought a company that nobody here has heard of probably called GUARD Insurance a few years ago. Based on Worker's Comp primarily. It's based in improbably in Wilkes-Barre, Pennsylvania. And it's expanding like crazy in Wilkes-Barre. And it's been a gem. And Ajit overseas it, but we've got a terrific person running it. And we bought Medical Protective some years ago. Tim Kenesey runs that. Ajit overseas it. But Tim Kenesey could run a terrific insurance company with or without Ajit, but he's smart enough to realize that if you've got somebody like Ajit that's willing to oversee it to a degree, that's great. But Tim is a great insurance manager all by himself, and Medical Protective has been a wonderful business for us. Most people don't know we own it. The company goes back into the 19th century actually. We've got a lot of good operations. If you look at that section in the annual report called other insurance company, that is, in aggregate, that is a wonderful insurance company. There's very few like it. GEICO is a terrific company. So Ajit has made more money for Berkshire than I have probably, but we've still got what I would consider the world's best property-casualty insurance operation even without him and with him, you know it. Nobody -- I don't think anybody comes close. Charlie?

Charles Thomas Munger
Vice Chairman

Well a few years ago, California made a little change in its worker compensation law. And Ajit saw instantly that it would cause the underwriting results to change drastically. And he went from a tiny percent of the market, about 10% of the market, which is big, and he just grasped a couple of billion dollars at least out of the air like he was snapping his fingers. And when it got tough, he pulled back. We don't have a lot of people like Ajit. It's hard to just snap your fingers and grab a couple of billion dollars out of the air.

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

We've -- actually the California Workers Comp, though GUARD has moved into that -- we've got a lot of terrific insurance managers. I mean, I don't know of a better collection any place. And Ajit has found some of those. I've gotten lucky a few times. I mean, Tom Nerney at U.S. Liability. That goes back, what, 15, 16 years? He is a terrific operation. It's not huge, but is so well managed. And people don't even know we own these things. But you look at that glass lining now we've added Peter Eastwood with Berkshire Hathaway Specialty. And these are really good businesses, I got to tell you. When you can produce underwriting promise and on top of that just hand more float, we don't have many businesses like that. Those are great businesses. We've got 100 -- yes, whatever it is, $100 billion-plus of money that we get to earn on, while at the same time, overall, on balance, we're likely to make some additional money for holding it. If we can get somebody to hand you $104 billion and pay you to hold it while you get to invest it and get the proceeds, it's a good business. Now most people don't do well in it, and the problem is that what I just described tempts lots of people to get into it, and recently people have got into it really just for the investment management. It's a way to earn money [onshore]. And we don't do that. But it can be done for small companies with investment manager. So there's a lot of competition there. But we have some fundamental advantages. Plus, we have in certain areas -- plus we have absolutely terrific managers to maximize those advantages. And we're going to make the most of it. I've just been handed something Kraft Heinz came out with. They just came out with it commercially a couple of days ago -- few days ago, maybe a few weeks ago, at the directors meeting, they had this. I had 3 of these. I'm sure that there's members of the audience who may not approve of it, but they -- I got to tell you, folks, it's good. It's a cheesecake arrangement with topping and Philadelphia cream cheese special on, so you create your own cheese cheesecake. And I thought that I can eat it while Charlie is talking. And you'll be able to get it at the halftime. It's selling very well. And I think, just so you don't feel too guilty, it's 170 calories for this cherry. But like I said, I had 3 of these here. I don't mind having 500 or 600 calories for dessert. I'll let somebody else eat the broccoli and I'll have the desert. So we'll be eating this, but you too, at halftime. I think they brought 8,000 or 9,000 of these. I'll be disappointed if we don't run out. Actually, I'd be disappointed with you, not them. Okay. Jay?

Jay H. Gelb
Barclays PLC, Research Division

This question is on the topic of succession planning. Warren, there seems to be fewer mentions by name of top-performing Berkshire managers in this year's annual letter. Does this mean you're changing your message regarding the succession plan for Berkshire's next CEO?

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

Well, the answer to that is no. And I didn't realize there were fewer mentions by name. I write that thing out and send it to Carol and she tells me go back to work. I don't actually think that much about how many personally get named. I would say this, and this is absolutely true, we have never had more good managers now because we've got more good companies, but we've never had more good managers than we have now. So I'd -- but it has nothing to do with succession. Charlie?

Charles Thomas Munger
Vice Chairman

No, I certainly agree with that, we don't seem to have a whole lot of 20-year-olds.

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

Certainly not at the front table. No, we've got an extraordinary group of good managers, which is why we can manage by abdication. It wouldn't work if we had a whole bunch of people who were -- had come with the idea of getting my job. If we had 50 people out there all who wanted to be running Berkshire Hathaway, it would not work very well. And that they have the jobs they want in life. Tony Nicely loves running GEICO. And you go down the line, they have jobs they love. And that's a lot better, in my view, than having a whole bunch of them out there that are kind of doing their job there and kind of hoping the guys competing with them will fail. So that when I'm not around, they'll get the nod. It's a much different system than exists in most large American corporations. Charlie, you got anything to add? Well, we'll go to Station 8.

Unknown Attendee

Warren and Charlie, my name is [Becky Way]. I'm an MBA student from the Wharton School of Business. This is my first time to be in the first -- in the annual meeting. I'm really excited about it. Thanks for having us here.

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

Welcome.

Unknown Attendee

My question is, where do you want to go fishing for the next 3 to 5 years? Which sectors are you most bullish on? And which sectors are your most bearish on?

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

Yes. Charlie and I do not really discuss sectors much nor do we let the macro environment or thoughts about it enter into our decision. We're really opportunistic, and we obviously are looking at all kinds of businesses all the time and it's a hobby with us almost, probably more with me than Charlie. But we're hoping we get a call and we've got a bunch of filters. And I would say this is true for both of us, we probably know in the first 5 minutes or less whether something is likely to or has a reasonable chance of happening. And it's just going to go through there. And it's going to -- first question is this, can we really ever know enough about this to come to a decision? And that knocks out a whole bunch of things. And there's a few, and then if it makes it through there, there's pretty good reasonable chance we're going to -- we may do something. But it's not sector specific. It -- we do love the companies, obviously, with the most around the product line, where consumer behavior can be perhaps predicted further out. But I would say it's getting harder to, for us anyway, to anticipate consumer behavior than we might have thought 20 or 30 years ago. I think that, that's just a tougher game now. But we'll measure it and we'll look at it in terms of returns on present capital, returns on prospective capital. We may have -- we can -- a lot of people give you some signals as to what kind of people they are even in talking in the first 5 minutes. And whether you're likely to actually have a satisfactory arrangement with them over time. So a lot of things go on [fast] but it -- we know these kind of sectors we'd kind of like to -- the type of business we'd kind of like to end up in. But we don't really say, we're going to go after companies in this field or that field or another field. Charlie, you want to...

Charles Thomas Munger
Vice Chairman

Yes. Some of our subsidiaries do a little bolt-on acquisitions that make sense. And that's going on all the time. And of course we like it. But I would say the general feel of buying whole companies, it's gotten very competitive. There's a huge industry of doing these leveraged buyouts. That's what I still call them. The people who do them think that's kind of a bad mark so they say they do private equity. It's like making a janitor call themselves the chief of engineering or something. But anyway, the people that do the leveraged buyouts, they can finance practically anything in about a week or so through shadow banking, and they can pay very high prices and get very good terms and so on. So it's very, very hard to buy businesses. And we've done well because there's a certain small group of people that don't want to sell to private equity. And they love the business so much they don't want to just dressed up for resale.

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

We had a guy, some years ago, came to see me and he was 61 at the time and he said, Look, I've got a fine business. I got all the money I could possibly need. But he said there's only thing one -- there's only one thing that worries me when I drive to work. Actually, there are more than one guy who's told me that, that have used the same term -- there's only one thing that bothers me when I go to work. If something happens to me today, my wife's left. I've seen these cases where the executives in the company tried to buy them out cheap or they sell to a competitor and all the people. He says that I don't want to leave her with the business. I want to decide where it goes, but I want to keep running it. And I love it. And he said I thought about selling it to a competitor. But if I sell that to a competitor, their CFO is going to become the CFO of the new company. And they're on down the line. And all these people that helped me build the business, them -- a lot of them are going to get dumped and I'll walk away with a ton of money. And some of them will lose their jobs. He said, I don't want to do that. And then he says, I can sell it to a leveraged buyout firm who would prefer to call themselves private equity, but they're going to leverage it to the hilt, and they're going to resell it. And they're going to dress it up some. But in the end, it's not going to be in the same place. I don't know where it's going to go. He said, I don't want to do that. So he said, It isn't because you're so special. He says, there just isn't anyone else. If you're ever proposing to a potential spouse, don't use that line. But that's what he told me. I took it well. And we made a deal. So logically, unless somebody has that attitude, we should lose in this market. I mean you can borrow so much money so cheap, and we're looking at the money as pretty much all-equity capital. And we are not competitive with somebody that's going to have a very significant portion of the purchase price carried in debt, maybe averaging 4% or something at that...

Charles Thomas Munger
Vice Chairman

And he won't take the losses, if it goes down. He gets part of the profit, if it goes up.

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

Yes. His calculus is just so different than ours, and he's got the money to make the deal. So if all you care about is getting the highest price for your business. We are not a good call, and we will get some calls in any event. And we can offer something that wouldn't call it unique but it's unusual. The person that sold us that business and a couple of others that have -- actually, it's almost word for word the same thing they say. They are all happy with the sale they make. Very happy. And they are -- they have lots and lots and lots of money, and they're doing what they love doing, which is still running the business. And they know that they made a decision that will leave their family and the people who worked with them all their lives in the best possible position. And that's -- in their equation, they have done what's best. But that is not the equation of many people. And it certainly isn't the equation of somebody who buys and borrow every dime they can with the idea of reselling it after they maybe dressed up the accounting and do some other things. So -- but there -- when the disparity gets so wide between what a heavily debit -- debt-financed purchase will bring as against an equity-type purchase, it gets to be tougher. There's just no question about it and it'll stay that way...

Charles Thomas Munger
Vice Chairman

But it's been tougher a long time and we've bought some good businesses.

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

Okay. Andrew?

Andrew Ross Sorkin

Warren, this comes from a shareholder. I think is here who asked to remain anonymous. Writes, 3 years ago, you were asked at the meeting about how you thought we should compensate your successor. You said it was a good question, and you would address it in the next annual letter. We've been patiently waiting. Can you tell us now, at least philosophically, how you've been thinking about the way the company should compensate your successor so we don't have to worry when the pay consultants arrive on the scene.

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

Yes. Well, that -- unfortunately, at my age, I don't have to worry about things I say or said 3 years ago. But this guy, obviously, much younger, remembers. I'm not -- well, I'll accept his word that I said that, but the -- there's a couple of possibilities, actually. And I don't want to get into details on it. But you may have -- and I actually would hope that we would have somebody, a, who's already very rich, which say should be, he'd been working a long time and get that kind of ability, that's very rich and really is not motivated by whether they have 10x as much money as they and their family is going to need or 100x as much. And they might even wish that, perhaps, set an example by engaging for something far lower than, actually, what you can say their true market value is. And that could or could not happen. I think it would be terrific if it did. But I can't blame anybody for wanting their market value. And then if they didn't elect to go in that direction, I would say that you would probably pay them a very modest amount and then have an option, which increased in value by or increase in striking price annually. Nobody does this hardly. The Graham Holdings has done it. The Washington Post Company did a little bit. But would increase because assuming that there was some financially retained earnings every year, because why should somebody retain a bunch of earnings and then claim they've actually improved the value simply because they withheld the money from shareholders. So it's very easy to design that. And in private companies, people do design it that way. They just don't want to do it in public companies because they get more money the other way. But they might have a very substantial one that could be exercised, but with the shareholders -- shares had to be held for a couple of years after retirement so that they really got the result over time that the majority of the stockholders would be able to get it and not be able to pick their spots as to when they exercised and sold a lot of stock. It would -- it's not hard to design, and it really depends who you're dealing with in terms of actually how much they care about money and having money beyond what they can possibly use. And most people do have an interest in that. And I don't blame them. But I'm -- I don't know. What do you think, Charlie?

Charles Thomas Munger
Vice Chairman

Well, I -- one thing I think is -- I have avoided all my life, compensation consultants. To me, it's -- I hardly can find the words to express my contempt.

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

I would say this, if the board hires a compensation consultant after I go, I will come back.

Charles Thomas Munger
Vice Chairman

Mad. Mad. So I think there's a lot of mumbo-jumbo in this field, and I don't see it going away.

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

It isn't going to go away. No, it's going to get worse. I mean, the -- if you look at -- I mean, the way that compensation gets handled, it -- everybody looks at everybody else's proxy statements and says we can't possibly hire a guy that hasn't been...

Charles Thomas Munger
Vice Chairman

It's ridiculous.

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

So on and the Human Relations department work for the CEO come and suggest a consultant. What consultant is ever to get another assignment if he says you should pay your CEO below the -- down in the fourth quartile because you're getting a fourth quartile result. I mean, it's just -- it isn't that the people are evil or anything. It's just the nature of the situation just -- it produces a result that is not consistent with how representatives of the ownership should behave.

Charles Thomas Munger
Vice Chairman

It's even worse than that. Capitalism is the golden goose that we all live on. And if people generally get so they have contempt for it because they don't like to pay arrangements in the system, your capitalism may not last as well. And that's like killing the golden goose. So I think the existing system has a lot wrong with it.

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

I think there is something coming in pretty soon. I may be wrong about this, where companies are going to have to put in their proxy statement the CEO's pay to the average pay or something like that. That isn't going to change anything. I mean...

Charles Thomas Munger
Vice Chairman

It won't change a thing.

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

It won't change a thing. It'll cost us. And Berkshire...

Charles Thomas Munger
Vice Chairman

By the way, it won't get any headlines either. It will be tucked away.

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

It'll cost us a lot of money, with 367,000 people employed around the world, and I mean -- we hope to get something that makes us somewhat simpler so we can use estimates or something of the sort. But to get the median income or mean income or whatever, however the rules may read. And...

Charles Thomas Munger
Vice Chairman

That's what consultants are for, Warren.

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

It's -- it is human nature that produces this. And the most -- I write in this letter to managers every 2 years. I say the only excuse I won't take on something is that everybody else is doing it. But of course, everybody else is doing it is exactly the rationale for why people did not want to count the cost of stock options as a -- I mean, it was ridiculous. All these CEOs went to Washington. They got the Senate, I think, to vote 88-9 to say the stock options aren't a cost. And then a few years later it became so obvious that they finally put it in so it was a cost. It reminded me of Galileo or something. I mean all these guys.

Charles Thomas Munger
Vice Chairman

Worse, it was way worse. The Pope behaved better to Galileo, then the -- he was...

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

Anyway. It's -- it -- I would hope -- like I say, somebody -- well and doesn't even have to be -- I'm not talking about the current successor or anybody else. It -- there -- these -- successors down the line are probably kind of gotten very, very wealthy by the time they're running Berkshire. And the incremental value of wealth gets very close to 0 at some point, and there is a chance to use it as a different sort of model. But I don't have any problem if it's -- a system is devised that recognizes retainer and is -- nobody -- I've never heard anybody talk about it. The 20 boards I've been on are. If you and I were partners in a business and we kept retaining earnings in the business and I kept having the value to buy a portion of you out at a constant price, you'd say this is idiocy. But of course, that's the way all the options systems are designed. And it's better to be -- that the CEO and for the consultants. And of course, usually -- there's some correlation between what CEOs are paid and what boards are paid. If CEOs was getting paid at the rate that they got paid 50 years ago adapted to present dollars, director pay would be lower. So it's got all these built-ins, things that, to some extent, sort of kindled.

Charles Thomas Munger
Vice Chairman

No Berkshire director is in it for the money.

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

Well, they are. They own a lot of stock and they bought it in the market, just like you.

Charles Thomas Munger
Vice Chairman

No -- sure they are. It's a very old-fashioned system.

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

I looked at one company the other day, and 7 of the directors had never bought a share of stock with their own money. Now they'd been given stock but not one of them -- I mean, I shouldn't say not 1, but 7 of the directors have never actually bought a share of stock. And there they are, making decisions on who should be CEO and how they should be paid and all that sort of thing. But they've never felt like shelling out a dollar themselves now they've given a lot of stock. It's -- we're dealing with human nature here, folks. And that -- what you want is to have a system that works well in spite of our human nature's going to drive it. And we've done awfully well in this country in that respect. I mean, American businesses, overall, has done very, very well for the Americans generally, but not every aspect of it is exactly what you want to teach your kids. Okay. Gregg?

Greggory Warren
Morningstar Inc., Research Division

Warren, between 2010 and 2015, intermodal rail traffic enjoyed double-digit rates of revenue growth as shorter off-freight converted from truck to rail. During the past year or so though, cheaper diesel prices are more readily available truckload capacity have made trucking more competitive, leading to a decline in intermodal rate traffic. While carload growth is expected to be solid longer term, helping to offset weakness in other segments like coal, what impact do you expect the widening of the Panama Canal, which was completed last year to have on the West Coast port shipments that BNSF is traditionally carried through an exchange points for the Eastern U.S. railroads as shippers look to have goods unloaded at ports in the Gulf of Mexico or off the eastern seaboard? And while a loss of volumes is never a good thing, could there be a small trade-off here as the bottleneck in Chicago, where most of East-West cargo is handed off, eases a bit over time as some of the current traffic gets rerouted?

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

Well, I'd -- yes -- Chicago has got lots of problem and is going to continue for long -- I mean that requires a big solution. When you think about how the railroad was developed, I mean, the Chicago was the center and delayed the rails and there were a whole bunch of different railroads 100 years ago. And city grows up around them and everything. So Chicago is -- can be huge problem. But getting to intermodal. I think intermodal will do very well. But you are correct that car loadings actually hit a peak in 2006. So here we are, 11 years later, and the investment of the 5 big class 1 railroads, 4 of the biggest, if you look at their investment, beyond depreciation, it's tens and tens of billions of dollars. And we're carrying less freight before in aggregate than we were in 2006. And coal will continue to increase. It's a good business that has big advantages over truck in many respects. Truck gets about much more of a free ride in terms of the fact that their right-of-way, which is the highway system is subsidized to a much greater degree beyond the gas tax -- we -- and the railroad industry. But it has not been a growth business in physical volume to any great degree. I think it's unlikely to be. I think it's likely to be a good business. I think we've got a great territory. I like the West better than the East. And as you mentioned, there will be some intermodal traffic that gets diverted to Eastern ports perhaps. But overall, we've got a terrific system in that respect. And we will do well. It would be more fun if we had something where you could expect aggregate car loadings to increase 2% or 3% or 4% a year, but I don't think that's going to happen. I do think our fundamental position is terrific, however. I think we will earn decent returns on capital, but that's -- I think that's the limit of it. Charlie?

Charles Thomas Munger
Vice Chairman

Nothing to add.

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

Okay. Station 9?

Unknown Attendee

I'm from -- [Shankar] and I'm from Gurnee, Illinois. Thank you for doing everything you do for us. I have a question. The 2 of you have largely avoided capital allocation mistakes by bouncing ideas off of one another. Will this continue long into Berkshire's future? And like -- I'm interested in both at headquarters and subsidiaries.

Charles Thomas Munger
Vice Chairman

It can't continue very long.

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

Don't get defeatist, Charlie. Any successor that's put in at Berkshire capital allocation abilities and proven capital allocation abilities are certain to be uppermost in the board's minds, or in the current case, in terms of my recommendation, Charlie's recommendation for when definitely we're not around. Capital allocation is incredibly important at Berkshire. Right now, we have $280 billion or $290 billion or whatever it may be of shareholders' equity. If you take the next decade alone, nobody can make accurate predictions on this, but in the next 10 years, if you just take and appreciate -- depreciation right now is another $7 billion a year, something out of that order, the next manager in the decade is going to have to allocate maybe $400 billion or something like that, maybe more, and it's more than already has been put in. So 10 years from now, Berkshire will be an aggregation of businesses where more money has been put in, in that decade than everything that took place ahead of time, so you'll need a very sensible capital allocator in the job of being CEO of Berkshire and we will have one. It would be a terrible mistake to have someone in this job where really capital allocation -- might even be their main talent, probably should be very close to their main talent. And of course, we have an advantage at Berkshire in that we do know how important that is and there is that focus on it and in the great many companies, people get to the top through ability in sales. Sometimes they come from the legal side, all different sides. And they then have the capital allocation sort of in their hands. Now they may have established strategic thinking divisions, they may listen to investment bankers and everything, but they better be able to do it themselves. And if they come from a different background or haven't done it, it's a little bit, as I put in one of my letters, I think it's like getting to Carnegie Hall, playing the violin and then you walk out on the stage and they hand you a piano. I mean it is something that Berkshire would not do well if somebody was put in who had a lot of skills in other areas but really did not have an ability to capital allocation. I've talked about it as being something, I call, a money mind. People are going to have 120 IQs or 140 IQs or whatever it may be, very similar scoring abilities in terms of intelligence test, and some of them have minds that are good at one type of thing and some of them the other type. I've known very bright people that do not have money minds and they can make very unintelligent decisions. They can do all kinds of other things that most mortals can't do, but it just doesn't -- it isn't the way their wiring works. And I've known other people that really would not do that brilliantly, they may do fine on an SAT test or something like that, but they've never made a dumb money decision in their lives. And Charlie, I'm sure, has seen the same thing. So we do want somebody, and hopefully, they've got a lot of talents, but we certainly do not want somebody that -- if they lack a money mind, Charlie?

Charles Thomas Munger
Vice Chairman

Well, it's also the option of buying in stock which -- so it isn't like it's some hopeless problem. One way or another, something intelligent will be done.

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

And a money mind who will recognize want to make sense to buying stock and doesn't. In fact, it's a pretty good test for some people in terms of management how they think about something like buying in stock because it's not a very complicated equation if you sort of think straight about that sort of subject. But some people think that way and some don't and they'll probably be miles better at something else but they say some very silly things when you get to something that seems so clear as whether say buying in stock makes sense. Anything further, Charlie?

Charles Thomas Munger
Vice Chairman

No.

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

Okay, Carol?

Carol Loomis

This question comes from [Steve Haberstrom] of Connecticut. Warren, you've made it very clear in your annual letter that you think the hedge fund compensation scheme of 2-and-20 generally does not work well for the fund's investors. And in the past, you've questioned whether investors should pay "financial helpers" as much as they can. The financial helpers can create tremendous value for those they help. Take Charlie Munger, for instance. In nearly every annual letter and on the movie this morning, you described how valuable Charlie's advice and counsel has been to you and, in turn, to the incredible rise in Berkshire's value over time. Given that, would you be willing to pay the industry standard "financial helper" fee of 1% on assets to Charlie? Or would you perhaps even consider 2-and-20 for him? What is your judgment about this matter?

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

Yes. Well, I've said in the annual report that I've known maybe a dozen people in my life and I said there are undoubtedly hundreds or maybe thousands out there, but I've said that I've known personally a dozen where I would've predicted or did predict -- in a fair number of those 12 cases, I did predict that the person involved would do better than average in investing over a long period of time, and obviously, Charlie's one of those people. So would I pay him? Sure. But would I take financial advisers as a group and pay them 1% with the idea that they would deliver results to me that were better than the S&P 500 by 1% and thereby leave me breaking even against what I could've done on my own? There's very few. So it's just not a good question to ask whether I pay Charlie 1%. That's like asking whether I'd pay Babe Ruth $100,000 or whatever it was to come over from the Red Sox to the Yankees. I mean, there weren't very many people that would have paid $100,000 to him in 1919 or whatever it was to come over to the Yankees. And so it's a fascinating situation because the problem isn't that the advisers are going to do such a terrible -- it's just that you have an option available that doesn't cost you anything that is going to do better than they are, in aggregate, and it's an interesting question. I mean, if you hire an obstetrician, assuming you need one, they're going to do a better job of delivering the baby than if the spouse comes in to do it, or if they just pick somebody up off the street. And if you go to a dentist, if you hire a plumber, in all of the professions, there is value added by the professionals as a group compared to doing it yourself or just randomly picking layman. In the investment world, it isn't true. I mean the active group, the people that are professionals, in aggregate are not, cannot do better than the aggregate of the people who just sit tight. And if you say well, in the active group, there's some person that's terrific, I will agree with you. But the passive people can't all pick that person and they wouldn't -- they don't know how to identify him. So I...

Charles Thomas Munger
Vice Chairman

It's even worse than that. The passive -- the expert who's really good, when he gets more and more money and he suffers just terrible performance problems, and so you'll find the person who has a long career at 2-and-20, and if you analyze it net of all the people who've lost money because some of the early people have had a good record but more money come in later and they lose it, so investing world is just -- it's a morass of wrong incentives, crazy reporting and I'd say a fair amount of delusion.

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

Yes, if you ask me whether I -- those 12 people I picked would do better than the S&P working with $100 billion, I would answer that probably none of them would. I mean that would not be their prospective performance. But when I was talking about, referencing them and when they actually worked in practice, they dealt generally with pretty moderate sums. And as the sums grew, their relative advantage diminished. I mean it's so obvious from history. The example I used in the report, I mean, the guy who made the bet with me, and incidentally, all kinds of people didn't make the bet with me because they knew better than to make the bet with me, there were hundreds, at least a couple of hundred underlying hedge funds, these guys were incented to do well, the fund-of-fund manager was incented to pick the best ones they can pick. The guy who made the bet when he was incented to pick the best fund of funds and tons of money and just with those 5 funds, a lot of money went to pay managers for what was subnormal performance over a long period of time, and it can't be anything but that. And it's an interesting profession when you'll have tens of thousands or hundreds of thousands of people who are compensated based on selling something that in aggregate can't be true, superior performance. So, but it will continue and the best salespeople will tend to attract the most money, and because it's such a big game, people will make huge sums of money far beyond what they're going to make in medicine or, you name it, I mean, repairing the company -- the country's infrastructure. I mean the big money is -- the huge money is in selling people the idea that you can do something magical for them. And if you have -- if you even have a

$1 billion fund and get 2% of it, terrible performance, I think that's $20 million. In any other field, it will just blow your mind but people get so used to it in the field of investment that it just sort of passes along. And $10 billion -- I mean $200 million fees, we've got 2 guys in the office, they're managing $11 billion. I'm sorry, yes, they're managing $20 billion, between the 2 of them $21 billion maybe. We pay them $1 million a year, plus the amount by which they beat the S&P, they have to actually do something to get a contingent compensation which is much more reasonable than 20%. But how many hedge fund managers in the last 40 years have said I only want to get paid if I do something for you. Unless I actually deliver something beyond what you can get yourself, I don't want to get paid. It just doesn't happen. Then it gets back to that line that I've used, but when I asked the guy, how can you, in good conscience, charge 2-and-20, and they said because I can't get 3-and-30. Any more, Charlie or we used up our...

Charles Thomas Munger
Vice Chairman

I think you've beaten up on them enough.

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

Yes, well, Jonathan.

Jonathan Brandt

Precision Castparts represents the second largest acquisition Berkshire has ever made. There wasn't much qualitative or quantitative information about it in the 2016 annual. Would you be willing to update us here with how it is doing currently? What excites you about its prospects? And what worries you most about it? I'm also curious if there were any meaningful purchase price adjustments beyond intangible amortization that negatively impacted Precision's earnings in 2016 as was the case with Van Tuyl in 2015. And finally, are there any opportunities in sight for bolt-on acquisitions?

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

Yes. We've actually made acquisitions and we'll make more there because we've got an extraordinary manager and we've got a terrific position in the aircraft field. So there will be sensible -- there will be the chance for sensible acquisitions and we've already made 2 anyway and we will make more over time. The amortization of intangibles is the only big purchase price adjustment. That's something over $400 million a year, nondeductible. In my mind, that's $400-and-some million of earnings. I do not regard the economic goodwill of Precision Castparts being diminished at that rate annually. That is a -- I've explained that in some degree. The -- as a very long-term business, you can worry about 3D printing. I don't think you have to worry about aircrafts being manufactured, but aircraft deliveries can be substantially altered in relation to any given backlog in most cases. So the deliveries can be fairly volatile, but I don't think the long-term demand is anything I worry about. And the question is whether anybody can do it better or cheaper or, like I said, whether 3D printing at least takes away part of the field in some respect, but overall, I would tell you, I feel very good about Precision Castparts. It is a very long-term business. I mean we have contracts that run for a very long time, and like I say, the initiation of a new plane may be delayed or something of the sort. But if you take a look at the engine that's in the other adjoining room there and in our exhibition hall, you would -- if you were putting that engine together with a 20- or 25-year life or whatever it may have, carrying hundreds of people, you would care very much about your supplier. And you care not only in the quality which we would absolutely care of the work being done, but you also -- if you were an engine manufacturer or an aircraft manufacturer, further down the line, you would care very much about the reliability of delivery on something, because you do not want a plane or an engine that's 99% complete, while somebody is dealing with the problem of faulty parts or anything else that would delay delivery. So the reliability is incredibly important. And I don't think anybody has a reputation better than Mark Donegan and the company for deliveries. So I love the fact we bought Precision Castparts. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, well, what's interesting about them too is that it's a very good business purchased at a fair price under -- but this is no screaming bargain like the old days. For quality businesses you pay up now a lot more than we used to.

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

Yes, that's absolutely true, and we don't get a bargain price. The $400-plus million incidentally goes on for quite a while. And we'll explain it in the report just as we'll explain the depreciation charge that a railroad would not be adequate. I mean it's the way accounting works. And starting -- I really don't want to tell you about this one, but starting first of next year, accounting is going to become sort of a nightmare in terms of Berkshire and other companies because they're going to have us mark our equities to market just like we were a Wall Street trading firm or something, and those changes in the value of Coca-Cola or American Express or anything are going to run through the income account every quarter. In fact, they run through it every day in this area, so it really will get confusing. Now it's our job to explain things so that you aren't confused when we report GAAP earnings. But GAAP earnings, as reported, will become even more meaningless looking only at the bottom line than they are now and...

Charles Thomas Munger
Vice Chairman

That was not necessarily a good idea.

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

No, I think it's a terrible idea, but we'll deal with it. I mean it's my job to explain to what extent GAAP accounting is useful to you in evaluating Berkshire and times when it actually distorts things. Accounting isn't supposed to be -- it's not supposed to describe value. On the other hand, it's a terribly useful tool, if understood, in order to estimate value if you're analyzing businesses. And so certainly, you can't blame the auditing profession for doing what they think is their job, which is not to present value although by using these markets...

Charles Thomas Munger
Vice Chairman

But you can blame the auditors.

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

What's that?

Charles Thomas Munger
Vice Chairman

You can blame the auditor for that one. That was really stupid.

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

I agree with that actually. But we will do our best to give you -- we're always going to give you the audited figures and then we're going to explain their shortcomings in either direction and how they -- what you should use and what you probably should ignore in looking at those numbers and using them to come to a judgment as to the value of your holdings. And I'll explain it to you the same way I would explain it to my sisters or anybody else. We want you to understand what you own and we try to cover the details. They're really important in that respect. I mean there's a million things you can talk about that are of just of minor importance when you're talking about a $400 billion market value. But they're the things that if Charlie and I were talking about the company, they'd be the figures or the interpretations or anything that we would regard as important and sort of coming to an estimate of the value of the business. But it's going to be -- can't knock the media. I mean they've only got a few paragraphs to describe the earnings of

Berkshire every quarter. But if they simply look at bottom line numbers, what can be silly this year would become absolutely ludicrous next year because of the new rule that comes into effect for 2018. Okay, Station 10?

Unknown Attendee

Warren, this is a question from China. I'm [James Chan]. I'm a pension fund manager in China, Shanghai. And my question is quite simple. What is the probability of duplicating your great investment track record in China's stock market in the next decades or 2 in terms of a maximum [pursuit]? That's all. And I thanks my friends from [indiscernible] Fullgoal fund management house for guiding me in raising this question.

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

Charlie, you're the expert on China.

Charles Thomas Munger
Vice Chairman

It's like determining the order of presidency between the [indiscernible]. I do think that the Chinese stock market is cheaper than the American market and I do think China has a bright future. I also think that there'll be growing pains, of course. But we have this opportunistic way of going through life. We don't have any particular rules about which market we're in anything like that.

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

Well, Charlie's delivered a headline anyway now. Munger prediction: China market will outperform U.S. And I've just been informed, it's 12:15. So I apologize if you're hungry for holding over for 15 minutes. So we'll reconvene around 1:15 and I'll see you then. Thanks.

[Break]

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

Okay. We're back for action, and we'll go right to Becky.

Becky Quick

This question comes from [Anne Newmann]. She says that she's a shareholder of the class B stock. And her question is the primary investment strategy of 3G Capital is extreme cost cutting after the purchase of company. This typically includes the elimination of thousands of jobs. With the current U.S. President focusing on retention of U.S. jobs, will Berkshire Hathaway still consider future investments in 3G Capital if those investments result in the purchase of U.S. companies and the elimination of more U.S. jobs?

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

The -- essentially, 3G management, and I've watched them very close at Kraft Heinz is -- basically they don't -- they believe in having a company as productive as possible. And of course, the gains in this world for the people in this room and people in Omaha and people throughout America have come through gains in productivity. If there had been no change in productivity, we would be living the same life as people lived in 1776. Now the people -- the 3G people do it very fast, and they are very good at making a business productive with fewer people than operated before, but that they've been -- we've been doing that in every industry, whether it's steel or cars or you name it, and that's why we live as well as we do. We prefer at Berkshire, I wrote about this a year ago -- we prefer to buy companies that are already run efficiently because, frankly, we don't enjoy the process at all of getting more productive. I mean, it's not pleasant, but it is what has enabled the country to progress, and nobody has figured out a way to double people's consumption per capita without, in some way, improving productivity per capita. It's a good question in the -- whether it's smart overall if you think you're going to suffer politically, because political consequences do hit businesses. So I don't know that I can answer the question categorically, but I can tell you that they not only focus on productivity and do it in a very intelligent way, but they also focus to a terrific degree on product improvement, innovation and all of the other things that you want a management to focus on. And I hope that at the lunchtime, if you have the Kraft Heinz cheesecake, you'll agree with me that product improvement and innovation there is just as much a part of the 3G playbook as productivity. I don't -- personally, we've been through the process of buying into a textile business that employed a couple thousand people and went out of business over a period of time or a [department of] business that was headed for oblivion. And it is just not as much fun to be in a business that cuts jobs rather than one that adds jobs. So Charlie and I would probably forego personally having Berkshire directly buy businesses where the main benefits would come from increasing productivity by actually having fewer workers. But I think it's prosocial to think in terms of improving productivity, and I think the people of 3G do a very good job at that. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I agree. I don't see anything wrong with increasing productivity. On the other hand, there's a lot of counterproductive publicity to doing it. Just because you're right, doesn't mean you should always do it.

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

Yes, I'd agree with that. Jay?

Jay H. Gelb
Barclays PLC, Research Division

Berkshire's cash and treasury bill holdings are approaching $100 billion. Warren, a year ago, you said Berkshire might increase its minimum valuation for share buybacks above 1.2x book value if this occurred. What are your latest thoughts on raising the share repurchase threshold?

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

Yes. The -- when the time comes, and it could come reasonably soon, even while I'm around, the -- when we really don't think we can get the money out in a reasonable period of time into things we like, we have to re-examine then what we do with those funds that we don't think can be deployed well. And at that time, we would make a decision and you might -- it might include both, but it could be repurchases, it could be dividends. There are different inferences that people draw from a dividend policy than from a repurchase policy that in terms of expectations that you won't cut a dividend and that sort of thing. So you have to factor that all in. But if we really -- if we felt that we had cash that was unlikely to be used, excess cash, in a reasonable period of time and we thought repurchases had a price that was still attractive to continuing shareholders was feasible in a substantial sum, that could make a lot of sense. At the moment, we're still optimistic enough about deploying the capital that we wouldn't be inclined to move to a price much closer -- well there's only a narrow spread between an intrinsic value and the repurchase price. But at a point the burden of proof is definitely on us, I mean that, I -- the last thing we like to do is own something at 100x earnings when the earnings can't grow. I mean, we're -- as you point out, we've got almost $100 billion, $90-plus billion invested in a business, we'll call it a business, where we're paying almost 100x earnings, and it's kind of a lousy business.

Charles Thomas Munger
Vice Chairman

It's more after after-tax earnings.

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

Yes. So it -- we don't like that, and we shouldn't use your money that way for a long period of time. And then the question is are we going to be able to deploy it? And I would say that history is on our side, but it would be more fun if the phone would ring instead of just relying the -- on history books, and I am sure that sometime in the next 10 years, and it could be next week or it could be 9 years, there will be markets in which we can do intelligent things on a big scale. But it would be no fun if that happens to be 9 years off, and I don't think it will be, but just based on how humans behave and how governments behave and how the world behaves. But like I said, at a point the burden of proof really shifts to us big time. And there's no way I can come back here 3 years from now and tell you that we hold $150 billion or so in cash or more, and we think we're doing something brilliant by doing it. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I agree with you. The answer is maybe.

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

He does have a tendency to elaborate. Station 11?

Unknown Attendee

Mr. Buffett and Mr. Munger. I am [Anil Narang] from Short Hills, New Jersey and New Delhi, India. This is my 18th time to this wonderful event and profoundly thank you for your extraordinary wisdom, generosity and time. As I'm involved with sustainable investments that also do not directly harm animals, I would appreciate your perspective, if any, on the practices of your CTB subsidiary, which is somewhat involved in pig, poultry and egg production. Somewhat indirectly related as you shared your concern on nuclear war extensively at the last annual meeting, I would love to pick your brain on Albert Schweitzer's Nobel Peace Prize acceptance speech shortly after the first nuclear bombs were detonated, that compassion can attain its full breadth and depth if it is not limited to humans only.

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

That's a pretty broad question. I would say on your first point, we have a subsidiary, CTB, run by Vic Mancinelli, and I sit down with him once a year and he's a terrific manager. He's one of our very best. You don't hear much about him. And they do make the equipment for poultry growers, and I would -- I can't answer your question specifically, but I would be glad to have you get in contact with Vic directly, because I know that what question you raised is a major factor in what they do. I mean, they do care about how the equipment is used in terms of poultry and egg production. And as you know, a number of the largest purchasers and the largest producers are also in the same camp, but I can't tell you enough about it directly that I can give you a specific answer. But I can certainly put you in touch with Vic, and I think you would find him extremely well informed and doing some very good things in the area that you're talking about. In terms of the nuclear weapon question, I'm very pessimistic on weapons of mass destruction generally, although I don't think that nuclear probably is quite as likely as either biological, primarily biological, and maybe cyber. I don't know that much about cyber, but I do think that's the #1 problem with mankind, but I don't think I can say anything particularly constructive on it now. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I don't think we mind killing chickens, and I do think we are against nuclear war so...

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

We are not actually a poultry producer, but we do -- they use our equipment and that equipment has been changed substantially in the last 10 or 15 years. But again, I'm just not -- I'm not that good on the specifics that I can give them to you, but I can certainly put you in touch with Vic. Andrew?

Andrew Ross Sorkin

Warren, since Todd and Ted joined Berkshire, the market cap of the company has doubled and cash on hand is now nearly $100 billion. It doesn't look like Todd and Ted have been allocated new capital on the same relative basis. Why?

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

Well, actually, I would say they have been. I think we started out with $2 billion. I could be wrong but my -- it's my memory was $2 billion with Todd when he came with us, and so there had been substantial additions. And of course, their own capital has grown just because you can say in a sense, they retained their own earnings. So yes, they are managing a proportion of Berkshire's capital or -- also measured by marketable securities. I think they're managing a proportion that's pretty similar, maybe even a little higher than when each one of them entered. And Ted entered a year or 2 after Todd. They -- I think they would agree that it's tougher to run $10 billion than it is to run $1 billion or $2 billion. I mean, that your expectable returns go down as you get into larger sums, but the decision to bring them on has been terrific. I mean, they've done a good job of managing marketable securities. They made more money than I would have made with that same what is now $20 billion, but originally was $2 billion. And they've been a terrific help in a variety of ways beyond just money management. So that decision now, that's been a very, very good decision. And they're smart, they're good -- they have money minds, they are good specifically at investment management, but they're absolutely first-class human beings and they really fit Berkshire. So that was -- Charlie gets credit for Todd, he met Charlie first, and I'll claim credit for Ted, and I think we both feel very good about the decisions. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think the shareholders are very lucky to have them because they both think like shareholders. [indiscernible] came up that way, and that is not the normal way headquarters employees think. It's a pretense that everybody takes on, but the reality is different. And these people really deeply think like shareholders, and they're young and smart and constructive. So we're all very lucky to have them around.

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

Yes. Their mindset is 100%, "What can I do for Berkshire?" and not, "What can Berkshire do for me?" And believe me, you can spot that over time with people. And on top of that, they're very talented, but it's hard to find people young, ambitious, very smart, that don't put themselves first. And I would -- every experience we've had, they do not put themselves first, they put Berkshire first. And believe me, I can spot it when people are extreme in one direction or the other. Maybe I'm not so good around the middle, but you've got -- you couldn't have two better people in those positions. But when you say why don't you give them another $30 billion each or something? I don't think that would improve their lives or their performance. They may be handling more as they go on, but the truth is I've got more assigned to me than I can handle at the present time is proven by the fact that we've got this $90 billion-plus around. I think they're reasonable prospects for using it. But if you told me I had to put it to work today, I would not like the prospect. Charlie?

Charles Thomas Munger
Vice Chairman

I certainly agree with that. It's a lot harder now than it was at times in the past.

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

Gregg?

Greggory Warren
Morningstar Inc., Research Division

Warren, plans for your ownership stake, which is heavily concentrated in Class A shares are fairly well known, with the bulk of the stock going to the Bill and Melinda Gates Foundation and four different family charities over time. Your annual pledges to these different charities involve the conversion of Class A shares, which hold significantly greater voting rights than the class B shares. As such, the voting control held by your estate will diminish over time with the whole layer of super-voting shares being eliminated in the process. While the voting influence of class B shareholders are expected to increase over time, they will not be large enough to have a big influence on Berkshire's affairs. With that in mind, you recognizing the greater importance on having Berkshire buy back and retire Class A shares in the long run, I was just wondering if the firm has compiled a pipeline of potential future sellers from the ranks of the company's existing shareholders? Given the limited amount of liquidity for the shares, privately negotiated transactions with these sellers, like the one you negotiated in December 2012, would end up being in the best interest of both parties.

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

Well, again, it would depend on the price of Berkshire. So in terms of what I give away annually, it's -- the last 2 years, it's been about $2.8 billion per year.

That can be -- that's 1 day's trading in Apple. I mean, the amount I'm giving away is, in terms of Berkshire's market cap, I mean, you're down to 0.7% of the market cap. So it's not a big market factor. And it's really, really wouldn't be that illiquid. So I know a few big owners that might have 8,000 or 10,000 shares of A but the market is going to handle it. Now when we bought that block of I think it was 12,000 shares of A, I mean we bought it because we thought it'd increase the intrinsic business value of Berkshire by a significant amount. And we paid those over what the market was at that time. And we are open to that up to 120%, and who knows if it came along at the time, it was 124% or something, it was very large block and the Director decided that, that was okay, and so it was a significant discount, we might very well buy it. But in terms of the orderly flow of the market or anything like that, there will be no problems just as there haven't been when I've given away, I do it every July, when I've given away the last 2 years, some of the foundations may keep it for a while but they have to spend what I give them and they may build up a position that would be for a fairly significant dollar amount but they're going to sell it. And it is true that for a period after I die, there will be a lot of votes still in the estate or either in a trust. But that will get reduced over time. I see no problem with our capitalization over time. I like the idea of a fair number of votes being concentrated with people that believe in the culture strongly and would not be thinking about whether they get a 20% jump in the stock and somebody came along with some particular plan. But eventually that's going to get diminished it continues to get diminished. I think in terms of -- there's a very good market in Berkshire shares and if we can buy them at a discount from intrinsic business value when somebody offers some -- a big piece, and it may be at 100 -- stock may be selling at 122%, 124%, I would pick up the phone and call our records and see if they didn't want to make a change and we did it once before. And if it makes sense, I'm sure they'd say yes, and if it didn't make sense, I'm sure they'd say no. So I don't think we have any problem in terms of blocks of stock. I don't think people who have owned it have a problem selling it and I don't think we have a problem in terms of evaluating the desirability of repurchasing it. Charlie?

Charles Thomas Munger
Vice Chairman

Nothing to add.

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

Okay. Station 1.

Unknown Attendee

My name is [Erin Bier], and I was born and raised in Pasadena, California and I currently live in New York City. It's been a dream of mine to come here today. I've been a proud Berkshire shareholder for almost 20 years. I asked my dad for a stock for Christmas when I was 15 and I kept thinking that the opportunity to ask you a question today is that I should make it one that would change my life. Well, that question is, do you know any eligible bachelors living in the New York City area?

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

Well, you certainly have to approach toward life that Charlie and I wouldn't...

Unknown Attendee

But the question that might make my Monday, back in the office, back in 2011, you purchased Bank of America preferred stock with a warrant. You have the opportunity at a later date to exercise and convert those into common shares. When you're looking at evaluating that decision to exercise that position, which would increase all of our Berkshire Holdings or the value of the Berkshire Holdings, what are you going to consider when you're looking at that?

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

Well, it's almost -- well, if the price of the stock is above $7 a share, which seems quite likely, whether we were going to keep it or not, it would still make sense for us to exercise the warrant shortly before it expired, because it would be a valuable warrant but it's only a valuable warrant if it's converted or if it's exercised and exchanged into common. And that warrant does expire. So as I put in the annual report, our income from the investment would increase if the Bank of America ever got to where it was paying $0.11 a quarterly. We got $300 million off the year of the preferred and for us to use the preferred as payment in the exercise of the warrant, we would need to -- we would want to feel we were getting more than $300 million a year and that would take $0.11 quarterly. They may or may not get to where they pay that amount before the warrant expires in 1921 -- or 2021. If we -- if it does get to there, we'll exercise the warrant and then instead of owning the $5 billion of preferred and the warrant, we'll have 700-plus million shares of common. Then that becomes a separate decision. Do we want to keep the 700 million shares of common? If it were to happen today, I would definitely want to keep the stock. Now who knows what other alternatives may be available in 2021 or -- but as of today, if our warrant were expiring tomorrow, we would use the preferred to buy 700 million-plus shares of common and we would keep the common. If they get to $0.11 quarterly dividend, we'll convert it and we'll very likely keep the common. And if we get to 2021, if the common's above $7, which I would certainly anticipate, we will exercise. So that's all I can tell you on that but I certainly wish you success on your other objective. And I think probably the fellow will be using very good judgment too. Okay, Charlie.

Charles Thomas Munger
Vice Chairman

Well, I think it's a very wise thing for a woman that owns Berkshire stock and it's a good-looking woman that put her picture up like that.

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

It does give me a thought though, we might actually start selling ads in the annual report. Okay. That -- incidentally, that BofA purchase, it literally was true that I was sitting in a bathtub when I got the idea of checking with BofA whether they'd be interested in that preferred. But I've spent a lot of time in the bathtub since and nothing's come to me. Clearly, I either need a new bathtub or we got to get to a different kind of market. Carol?

Carol Loomis

This is a question from [George Beneoria] and it adds a layer to the discussion about 3G a little bit ago. He says I'm a very happy long-term shareholder but this is a concern I have regarding Berkshire Hathaway's Kraft Heinz investment. This investment has done well in economic terms. The carrying value is $15 billion and the market value was $28 billion in 2016. But the DNA of 3G is quite different from ours. We do not make money by buying companies and firing people. 3G fired 2,500 employees at Kraft Heinz.

That is what private equity firms do, but we are not a private equity firm. Our values have worked for us for over 50 years. There is a risk that as 3G continues to deviate from our principles, they will eventually harm both our value and our values. How do we prevent that from happening?

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

Well, it's interesting. I mentioned earlier that it was very gradual but it would have been probably a better decision. We fired 2,000 people over time, and some retired and left and all of that. But at the textile operation. It didn't work at the [indiscernible], the successor, fortunately, sold it to somebody else but eventually they closed up the department stores because department stores leased that particular one and they got many, actually, including our competitors in Baltimore, could not make it work. Walmart came along with something and now Amazon's coming along with something it changed the way people bought. They knew -- we mentioned our poultry, those CTB, which is a lot of different farm equipment. The farm equipment often that CTB develops, the idea is that it's more productive than what already is out there which means fewer people are employed on farms. We had 80% of the American population -- working population, working on farms a couple of hundred years ago and if nobody had come up with things to make it more productive, farming, we'd have 80% of people working on farms now to feed our populace and it means that we'd be living in a far, far more primitive way. So if you look at the auto industry, it gets more productive. If you look at any industry, they're trying to get more productive. Walmart was more productive than department stores. And that will continue in America and it better continue or we won't live and our kids won't live any better than we do. Our kids will live better than we do because America does get more productive it goes on and people do come up with better ways of doing things. The -- when Kraft Heinz finds that they can do whatever amount of business, $27 billion worth of business or something, and they can do it with fewer people, they are doing what American businesses done for a couple of hundred years and why we lived so well but they do it very fast. They are more than fair in terms of severance pay and all of that sort of thing but they don't want to have 2 people doing the job that 1 can do. And I, frankly, don't like going through that having faced that -- I faced that down in [indiscernible] Nebraska, and it really need to change but the change is painful for a lot of people and I just would rather spend my days and not doing that sort of thing, having had 1 or 2 experiences. But I think that it's absolutely essential to America that we become more productive because that is the only way we have more consumption per capita, as have more productivity per capita. Charlie?

Charles Thomas Munger
Vice Chairman

Well, you're absolutely right. We don't want to go back to subsistence farming. I had a week there when I was young in Western Nebraska farm, and I hated it. And I don't miss the elevator operators who used to sit there all day in the elevator, run a little crank and all. So on the other hand, as you say, it's terribly unpleasant for the people that have to go through it. And why would we want to get into the business of doing that over and over ourselves. We did it in the past when we had to when the businesses were dying. I don't see any moral fault in 3G at all. But I do see that there's some what I would call reaction that doesn't do anybody any good.

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

Milton Friedman, I think was -- used to talk about the time, probably apocryphal, he would talk about the huge construction project in some communist country, and they had thousands and thousands and thousands of workers out there with shovels digging away on this major project and then they had a few of these big earthmoving machines behind which were idle and which could have done the work in 1/20 of the time of the workers. So the economists suggested to the local party worker, whoever was it, why in the world didn't they use these machines to get the job done in 1/10 or 1/20 of the time instead of having all these workers out there with shovels. And the guy replied, well yes, but that would put the workers out of work. And Friedman said, well, then why don't you give them spoons to do it instead?

Jonathan?

Jonathan Brandt

I understand that Berkshire is much more liquid than is ideal right now with $113 billion of consolidated cash and bonds versus policyholder float of $105 billion. But I have trouble calculating how much incremental buying power Berkshire has at any point in time. You've talked about having a minimum of $20 billion in cash on a consolidated basis. But for regulatory risk controller and liquidity purposes, is there some a minimum amount of float beyond the $20 billion that has to be in cash bonds or, say, preferred stocks? Or can all but $20 billion be put into either common stocks or invested into a wholly-owned businesses if you found attractive opportunities? What does the balance sheet look like if you were fully invested? And where does additional debt fit into the equation, if at all?

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

Yes. I wouldn't conflate the cash and the bonds. I mean when we talk about $20 billion of cash, we could own no bonds beyond that. $20 billion would be the absolute minimum, is a matter of fact -- since I've said $20 billion is a minimum, I'm not going to operate with $21 billion any more than I'm going to see a highway -- a truck sign that says maximum load, 30,000 pounds or something and then drive 29,800 across. So we won't come that close. But the answer is that, A, we could use -- we're not inclined to use debt. Obviously, we've found something that really lit our fire. We might use some more debt, although it's unlikely under today's circumstances. But we -- $20 billion's an absolute minimum, you can say that because I say $20 billion is an absolute minimum probably wouldn't be below --$24 billion or $25 billion. And we could do a very large deal if we thought it was sufficiently attractive. I mean, we have not put our foot to the floor on anything for really a very long time but if we saw something really attractive -- we spent $16 billion back when we were much smaller in a period of 2 or 3 weeks, probably 3 weeks, maybe, in the fall of 2008. And we never got to a point where it was any problem for me, sleeping at night. And now we, obviously, have a lot more money to put out so if a good -- Charlie, at what point, if I called you, would say I think that's a little bit big for us today?

Charles Thomas Munger
Vice Chairman

I would say about $150 billion.

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

Well, in that case I'll call you. I'm a little more conservative about that than actually Charlie, but we both would do a very, very big deal.

Charles Thomas Munger
Vice Chairman

We don't have to agree perfectly.

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

Yes, it had to be. But if we find a really big deal that makes compelling sense...

Charles Thomas Munger
Vice Chairman

Now you're talking.

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

We're going to do it. Okay. Station 2.

Unknown Attendee

Mr. Buffett, Mr. Munger, my name is [Felipe Bekiani] I'm 19 years old from Brazil and your partnership with Jorge Paulo and his associates at 3G has been very successful, taking into account great outcome of transactions such as the Kraft Heinz merger. Even though you and Jorge Paulo have different investment methods, would you and Charlie consider him to be a member of your board or even your successor?

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

I don't think that will happen but -- and I think it would complicate things in terms of the board membership. But we love the idea of being their partner and I don't think -- I think there's a good chance that we will do more and perhaps even bigger things together. But the -- we are probably unlikely that we'll be doing much change in the board certainly in the next few years and there will be a successor and the successor very well be while I'm alive. But that will be -- very high probability that will be from somebody that's been in our company for some time. I mean, the world could change in very strange way but that's a very, very high probability. Charlie?

Charles Thomas Munger
Vice Chairman

Well, all I can say is that my back hurts when I come to these functions because I want to indicate to my fellow shareholders that I probably got 7 more good years to get out of Warren.

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

Charlie is inspiring me, I got to tell you that. But we've been very, very lucky in life and so far, our luck seems to be holding. Okay, Becky?

Becky Quick

This question comes from [Drew Estes] in Atlanta, Georgia, and he asks, "Is Fruit of the Loom experiencing difficulties related to the distribution channel shift towards online and the troubles in the brick-and-mortar retail world? If so, do you believe the difficulties are short-term in nature"? And then Drew goes on to add," "I'm hoping millennials haven't bucked the underwear trend too."

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

No, probably he may know more about that than I do. The answer is, essentially, no so far, but anybody that doesn't think that online isn't changing retail in a big way and that anybody who thinks they're totally insulated from it is correct, I mean, the world is changing big time. And like I said, Fruit of the Loom, it really hasn't changed. And our furniture operation, which is setting a record so far, again, this year for the Shareholders' Weekend. I mentioned in the report I think we did $45 million in 1 week. And our furniture operations, it's hard to see any effect from online -- outside of our own online operations. We had really good same-store gains that you can take whether it's Nebraska Furniture Mart but RC Willey whether it's in Sacramento or Reno or Boise or Salt Lake City or Jordan's, which in Boston, has done very well on a same-store basis. So we don't really see it but there were a lot of things we didn't see 10 years ago but then materialized. One thing you may find interesting is that the furniture market here in Omaha, which is an extraordinary operation, the online is growing very substantially and I may be wrong on this, but I think it's getting up to -- I'd like to check this with [indiscernible] before I say this, but I think it's getting pretty close to 10% or so of volume. That is a very significant percentage of those people still going and pick the product up at the Furniture Mart. So apparently, it's the time spent entering the store or maybe at check-out lines or whatever it may be, I'm surprised that it gets to be that percentage. But one thing about it, we keep looking at the figures and trying to figure out what they're telling us, so far, I would not say that it's affected Fruit of the Loom in a significant manner. I would not say it's affected the furniture operation in significant manner. But I have no illusions that 10 years is going to look -- from now -- is going to look anything like today. If you think about it -- if you go back 100 years to the great department stores, what did they offer? They offered incredible selection. If had a big department store in Omaha, you have the 1,000 bridal dresses and if you live in a small town around the local guy had 2 or something of the sort. So the department store was the big, exciting experience of variety and decent prices and convenient transportation because people took the streetcars to get there and then along came the shopping center and they took what was vertical before and they made it horizontal and they changed it in a multiple ownerships but they still kept incredible variety and assortments and convenience of going to 1 place and accessible transportation because now the car was the method. And now you go -- and then we went to the discount stores and all of that, but now you've got the Internet and you've got the ultimate in terms of assortments, and you've got people that are coming in at low prices and the transportation is taken care of entirely. So the evolution that has taken place -- the department stores is online now, basically, except much expanded in assortment, much more convenient and lower prices. So the world has evolved and it's going to keep evolving but the speed has increased dramatically. And what will happen with -- the brands are going to be tested in a variety of ways that -- and they have to make decisions as to whether they try to do it online themselves or work through an Amazon or whether they try to hang onto the old methods of distribution while embracing new ones. There's a lot of questions in retail and in branding that are very interesting to watch. And we'll get some surprises in the next 10 years, I can promise you that. Charlie?

Charles Thomas Munger
Vice Chairman

It's -- it would be certainly be unpleasant if we were in the department store business, just think of what we avoided, Warren.

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

And we got very lucky, actually, because we were in a department store business and our business was so lousy that we recognized it. If it had been a little bit better, we would have hung on and we owe a tremendous gratitude to Sandy Gottesman, our director, who's here in the front row because he got us out of the business when Charlie and I and Sandy were partners in that. And something we paid $6 a share for, I think it's worth about $100,000 a share now because we got out of the business and if it had been a somewhat better business, it might be worth $10, $12 share now. So sometimes you get lucky. We don't miss it either, do we?

Charles Thomas Munger
Vice Chairman

No, we don't miss it.

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

Jay.

Jay H. Gelb
Barclays PLC, Research Division

This question is on Berkshire's intrinsic value. A substantial portion of the company's value is driven by operating businesses rather than the performance of the securities portfolio. Also, the values of previously acquired businesses are not marked up to their economic value, including GEICO, MidAmerican and Burlington Northern. Based on these factors, is book value per share still a relevant metric for value in Berkshire?

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

Well, it's got some relevance but it's got a whole lot less relevance than it used to and that's why I don't want to drop the book value per share factor but the market value tends to have more significance as the decades roll along, it's a starting point. And clearly our securities aren't worth more than we're carrying for -- carrying them for at that time. And on the other hand, we've got the kind of business as you mentioned but we've got some small businesses that were 10x or so what would occur. But we've also got some clunkers too. But I think the best method of course is just to calculate intrinsic business value but it can't be precise. We know -- we think the probability is exceptionally high that 120% understates it. Although if it was our own securities, 120% would be too high. But as the businesses have evolved, as we built in unrecognized value at the operating businesses, unrecognized for accounting purposes, I think it still has some use as being kind of the base figure we use. If it were a private company, then 10 of us here owned it instead, we just sit down annually and calculate the businesses one by one and use that as a base value. But that gets pretty subjective when you got as many as we do. And so I think the easiest thing is to use those standards we're using now, recognizing the limitations in them. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, I think equities in insurance company offsetting shareholders' equity in the company are really not worth the full market value because they're locked away in a high-tech system. And so I basically like it when our marketable securities go down and our own businesses go up.

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

Yes, we’re working to that end, we've been working on that like for 30 years now or something like that.

Charles Thomas Munger
Vice Chairman

We've done a very good job too. We have a lot of -- we've replaced a lot of marketable securities with unmarketable securities that were worth a lot more.

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

Yes, and then it's actually a more enjoyable way to operate to beyond that.

Charles Thomas Munger
Vice Chairman

Yes, we know a lot of people who wouldn't otherwise.

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

Yes, we will.

Charles Thomas Munger
Vice Chairman

Good people.

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

Okay, Station 3.

Unknown Attendee

My name is [Michael Monahan] and I'm from Long Island, New York. I don't know if this question qualifies as investment advice so I have a short different question, if you don't want to answer this one. Unlike the last shareholder from zone 3, this will not be sum speech nor a protest. One of your most well-known pieces of investment advice is to buy what you know. Additionally, you said earlier one of the main criteria for buying is if you can ever understand the business. Ever since I came to my first meeting in 2011, you were not known for being a tech guy. You have said smartphones are too smart for you. You don't have a computer at your desk. And you've only tweeted 9 times in the last 4 years.

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

It was either that or going to a monastery.

Unknown Attendee

Despite this, you've recently been investing, looking and talking more about tech companies. My question to you, and also to Charlie to comment, is what turned you from the Oracle of Omaha to the tech made in Omaha?

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

I don't think I would -- I don't think I've talked that much about tech companies but the truth is we made a large investment in IB -- I made a large investment in IBM, which has not turned out that well, we haven't lost money but in terms of the bull market we've been in, it's been a significant laggard. And then fairly recently, we took a large position in Apple, which I do regard as more a consumer goods company in terms of certain economic characteristics. Although it has a huge tech component in terms of what that product can do or what other people might come along to do to leapfrog it in some way. But I think I'll end up being -- no guarantees, but I think I'll end up being 1 for 2 instead of over 2, but we'll find out. Charlie? I make no pretense whatsoever of being on the intellectual level of some 15-year-old that's got an interest in tech. I think, I may know -- have some insights in the consumer behavior. I certainly can get a lot of information on a consumer behavior and then try to draw inferences about what that means about what consumer behavior is likely to be in the future. But we will find out -- the other thing I'll guarantee is I make some mistakes on marketable securities, and I made them in other areas than tech. So you'll not bat 1.000, no matter what industries you try to sic. But I know insurance pretty well but I think we probably lost money on an insurance stock perhaps once or twice over the years. You don't bat 1.000. But I have gained no real knowledge about tech in the last -- well, since I was born, actually. Charlie?

Charles Thomas Munger
Vice Chairman

I think it's a very good sign that you bought the Apple. It shows either 1 of 2 things, either you've gone crazy or you're learning. I prefer the learning explanation.

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

Well, so do I, actually. Andrew?

Andrew Ross Sorkin

Warren, this one's a fun one. [Thomas Comay] is here, he's a 27 -year-old shareholder from Kentfield, California and I should preface us this question by saying that he was here 17 years ago at 10 years old, asked you a question from the audience, asking you if the Internet might hurt some of Berkshire's investments. At the time, you said you wanted to see how things would play out. He's now updated the question. What do you think about the implications of artificial intelligence on Berkshire's businesses beyond autonomous driving with GEICO, which you talked about already, in your conversations with Bill Gates, have you thought through which other businesses will be most impacted? And do you think Berkshire's current businesses will have a significantly -- will have significantly more or less employees a decade from now as a function of artificial intelligence? Well, I mixed a couple of questions together.

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

I certainly have no special insights on our artificial intelligence but I will bet a lot of things happen in that field in the next couple of decades and probably a shorter time frame. They should lead, I would certainly think, but again, I don't bring much to this party but I would certainly think they would result in a significantly less employment in certain areas, but that's good for society. And it may not be good for a given business but let's take it to the extreme. Let's assume 1 person could push a button and essentially, through various machines and robotics, all kinds of things, turn up all of the output we have in this country. So everybody's there's just as much output as we have, it's all being done by instead of 150-some million people being employed, 1 person. Now is the world better off or not, well, certainly would work and less hours a week of work per week and so on. I mean it would be a good thing but it will require enormous transformation in how people relate to each other, what they expect of government, all kinds of things and the course is a practical matter more than 1 person would keep working. But pushing the idea that way is one of the -- you'd certainly think that's one of the consequences of making great progress in artificial intelligence. And that's enormously pro-social eventually. It's enormously disruptive in other ways and it can have huge problems in terms of a democracy and how it reacts to that. It's similar to the problem we have in trade where trade is beneficial to the society but the people that see the benefits day by day of trade don't see a price of Walmart on socks or whatever they're importing that says you're buying -- you're paying x but you would pay x plus so many cents if you bought this domestically. So they're getting these small benefits and invisible benefits and the guy that gets hurt by it, who is the roadkill of free trade, feels it very specifically. And that translates into politics. And so you can -- it gets very uncertain as to how the world would adjust, in my view, to great increases in productivity and without knowing a thing about it, I would think that artificial intelligence would have that hugely beneficial social effect but a very unpredictable political effect if it came in fast, which I think it could. Charlie?

Charles Thomas Munger
Vice Chairman

Well, you're painting a very funny world where everybody's engaged in trade and the trade is I give you golf lessons and you dye my hair. And that would be the world kind of like the royal family of Kuwait or something. And I don't think would be good for America to have everything produced by 1 person and the rest of us just engaged in leisure.

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

How about if we just got twice as productive?

Charles Thomas Munger
Vice Chairman

What?

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

How about if we got twice as productive in a short period of time so that 75 million people could do about 150 million people are doing now?

Charles Thomas Munger
Vice Chairman

I think you would be amazed how quickly people would react that.

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

In what way?

Charles Thomas Munger
Vice Chairman

Favorably. And that's what happened during the period when there -- which everybody remembers in such a faction back in the Eisenhower years, 5% a year or something people loved it. Nobody complained that they were getting air-conditioning and didn't had it before. Nobody wanted to go back to stinking, sweating nights in the South.

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

If you cut everybody's hours in half it's one thing. But if you fire half of the people, the other people keep working, I just think it gets very unpredictable. I mean, I think we saw some of that in this election because I think that...

Charles Thomas Munger
Vice Chairman

But we've adjusted to enormous amount of it, it just came along a few percent per year.

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

Well, and the question then...

Charles Thomas Munger
Vice Chairman

I don't you think you have to worry about the coming out of 25% a year. I think you have to worry about if you're going to get less than 2% a year. That's what's worrisome.

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

Okay. We'll move on. But it will be -- it's absolutely fascinating subject to see what happens with this but it gets very, very hard to predict. If in some way, we've got 36,000 people say, employed at GEICO and if you can do the same, perform all the same functions, virtually all the same functions even if you have to do it with 5,000 or 10,000 people and it came on quickly and the same thing was happening in a great many other areas, I don't think we ever experienced anything quite like that and maybe we won't experience anything like it in the future, I don't know that much about AI but...

Charles Thomas Munger
Vice Chairman

I don't think you have to worry about that.

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

Well, that's because I'm 86.

Charles Thomas Munger
Vice Chairman

It's not going to come very quickly.

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

Okay. Gregg.

Greggory Warren
Morningstar Inc., Research Division

Warren, during the past 5 years, Berkshire Energy's investments in solar and wind generation have been about equal with around $4.7 billion dedicated to capital projects in each segment. Based on the company's end of year capital spending forecast for 2017 through 2019, investments in wind generation were expected to be more than 7x greater than investments in solar generation in the next 3 years, with just over $4.5 billion going into wind generation. Just wondering how much of that future spending is tied to PacifiCorp.'s recently announced $3.5 billion expansion plan, which is heavily weighted towards improving and expanding its subsidiaries of existing wind fleet? And whether the economics for wind are that much better than solar given that MidAmerican has also been spending heavily on wind investments, or is it just this disparity between the 2 segments being driven more by genuine capacity needs which would imply that you have much more solar capacity than you need?

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

We don't look at it as having more solar capacity than we need or anything like that. It's really a question of what comes along. I mean, and these -- the projects, they're internally generated, they're externally offered to us and we've got a big appetite for wind or solar. We have seen, just based on those figures, we have seen more wind lately. But we have no bias toward either one. I mean, if we saw $5 billion of attractive solar projects, we could do and didn't happen to see any wind during that period, it wouldn't slow us down from doing $5 billion or vice versa. So we are -- we have an appetite, a huge appetite, for projects in either area. We're particularly well situated, I think I've explained or talked about in the past, because we pay lots of taxes and therefore, solar and wind projects all involve a tax aspect to them and we can handle those much better than many other certainly electric utilities. Most electric utilities really, A, don't have that much money left over after dividends and, these -- frequently the taxes aren't that significant. At Berkshire, we pay lots of taxes and we got lots of money. So it's really just a question of doing the math on the deals as they come along. We've been very fortunate in Iowa in finding lots of projects that made sense and as a result, we've had a -- we've got a much lower price for electricity than our main competitor in the state. We got a lower price than any states that touch us. We told the people of Ohio we won't have a price increase for many, many years, guaranteed that. So it's worked out extremely well. But if somebody walks in with a solar project tomorrow and it takes $1 billion or takes $3 billion, we're ready to do it. There's no specific. And the more, the better. There's no specific preference between the 2. And, obviously, depends on where you are in the country. I mean, Iowa's terrific for wind, and obviously, California is terrific for sun. And there are geographical advantages to one or the other. But from our standpoint, we can do them any place and we will do it in many place. Okay. Station 4.

Unknown Attendee

My name is [Joey], and I'm an MBA candidate at Wharton Thank you for having us. Amazon has been hugely disruptive due to the brilliance of Jeff Bezos whom Charlie earlier called the business mind of our generation. What is your current outlook on Amazon? And why hasn't Berkshire bought in?

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

Well, because I was too dumb to realize what was going to happen. Even though I admired Jeff, I'd admired him for a long, long time and watched what he was doing but I did not think that he could succeed on the scale he has and I certainly didn't think about the possibility of doing anything with Amazon Web Services or the cloud. So if you'd ask me the chances that while he was building up the retail operation that he would also be doing something that was disrupting the tech industry, that would have been a very, very long shot for me. And I've underestimated -- I've really underestimated the brilliance of the execution. I mean, it's one thing to dream about doing the stuff online but it takes a lot of ability and you can read his 1997 annual report, he laid out a roadmap and he's done it and done it in spades. And if you haven't seen his interview on Charlie Rose 3 or 4 month ago, CharlieRose.com go to and listen to it because you'll learn a lot, at least I did. I just point, it always looked expensive and I really never thought that he would be where he is today. I thought he would do -- I thought he was really brilliant but I did not think he would be where he is today when I looked at it 3, 5, 8, 12 years ago, whenever it may have been. Charlie, how did you miss it?

Charles Thomas Munger
Vice Chairman

It was easy. What was done there was very difficult and it was not, at all, obvious that it was all going to work as well as it did. I don't feel any regret about missing out on the achievements of Amazon. But other things were easier and I think we screwed up a little.

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

We won't pursue that item.

Charles Thomas Munger
Vice Chairman

Well, I meant Google.

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

We missed a lot of things.

Charles Thomas Munger
Vice Chairman

Yes.

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

We missed a lot of things.

Charles Thomas Munger
Vice Chairman

And we'll keep doing it. Like we don't say everything, Warren that's our secret, we don't miss them all.

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

Okay, we better move on, I think. You may start getting specific. Carol.

Carol Loomis

The creator of this question, [Jim Keefer] of Atlanta, has higher -- even higher expectations for Warren's led longevity than Charlie does. Mr. Buffett, we all hope you win the record as mankind's oldest living person. But at some point, you and/or Charlie will go, and Berkshire stock may then come under selling pressure. My question is, if Berkshire stock falls to a price where share repurchase is attractive, can we count on the board and talk management to repurchase shares? I asked this question both because of past comments you have made about not wanting to take advantage of shareholders and because some of the passages in the owner's manual lead me to believe this might be an instance when the board does not choose to repurchase shares. Can you clarify what course of action we might expect about repurchases in the circumstances I have outlined?

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

As far as I'm concerned, they're not taking advantage of shareholders if they buy the stock when it's undervalued. That's the only way they should buy it. And they should. But in doing so, yes, there were a few cases back when Charlie and I were much younger where there were very aggressive repurchases or the equivalent of repurchases by people and the repurchases, incidentally, made a lot more sense than they do now. But they were done by people who either for various techniques tried to depress the shares. And if you're trying to encourage your partners to sell out at a depressed price by various techniques, including misinformation, but there's other techniques, I think that's reprehensible. But our board wouldn't be doing that. I'll take exception to the first part of it but I'll still answer the second, I think the stock is more likely to go up if I die tonight, I think the stock would go up tomorrow. And there'd be speculation about breakups and all that sort of things. It would be a good Wall Street story. This guy that's obstructed, breaking up something that where the sum of the parts might sell for more than the whole, then it wouldn't necessarily be probably be worth less than the whole but might sell for temporarily for more than the whole if that were to happen. So I would bet in that direction. But if, for some reason, it went down to a level that's attractive, I don't think the board is doing anything in the least that's reprehensible by buying into the stock at that point. No false information, no nothing and their buying means that the seller will get a somewhat better price but there are a lot of sellers, they'll get a mildly better price than if they want to buy and the rate and the continuing stockholders would benefit. So I think that -- I think it's obvious what they would do and I would think it's obvious that it's pro-shareholder to do it. And I think they would engage in pro-shareholder acts as far as the eye can see, I mean, we've got that sort of board. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I think you or I might suddenly get very stupid very quickly but I don't think our board is going to have that problem.

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

Well, I want to think about that one. Okay, Jonathan.

Jonathan Brandt

Warren, in the past you've enjoyed discussing accounting for options grants. So I'm curious what's your view of the new accounting standard which mandates the company to report lower tax provisions based on so-called excess tax benefits enjoyed with share-based compensation ends up being more profitable for the grantees than when it's initially modeled. These so-called benefits, excess benefits, used to go through the shareholders' equity line on the balance sheet. Which accounting method makes more sense to you? The old method or the new?

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

Jonny, I think you know a lot more about than I do. If I were to answer that question, I'd probably call you up and say, what should I say? It's not a factor that will enter in the Berkshire so I really have not -- I mean, I've heard just a little bit about that accounting standard but I really don't know anything about it. Charlie?

Charles Thomas Munger
Vice Chairman

It's not a big deal, Warren.

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

Yes, well, I know that. Yes. We -- there are a few things in accounting we really disagree with and whether they might be material to somebody trying to evaluate Berkshire and that primarily gets an amortization of intangibles, we'll certainly -- it certainly gets into realize capital gains and that sort of thing and we will go to great lengths to try to tell our partners, basically, not all of them, are accounting experts or anything, and we will try to make clear to them, at least what our view is the same way as if I had a family business and I was talking to my sisters or something about it. But unless it's material, we'll probably stay away from trying to apply it on any new accounting standards. If it's material to Berkshire, we'll go to great lengths to at least give our view. Charlie?

Charles Thomas Munger
Vice Chairman

I certainly agree with that. That is that -- what he is talking about is not very material to Berkshire.

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

No, it isn't. And it really won't be.

Charles Thomas Munger
Vice Chairman

I know.

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

Some of these others are though, and we will bring those up if they -- as they come up. We are reporting $400-and-some million less in our earnings than if Precision Castparts have remained a public company. Well, as Precision Castparts, I mean, is the earnings less real, is the cash less real? Is anything -- because it moved the ownership, I don't think so. And I want to convey that belief to the shareholders and they can debate whether it's right or wrong. But I think it's a mistake not to comment if -- and just assume that the owners understand that because it's a fairly arcane point and so we point it out. But we also point it out if we think depreciation is inadequate as for evaluation purposes, that depreciation is an inadequate and very capital-intensive business like BNSF, which we I must say still love, anyway. Charlie, any more?

Charles Thomas Munger
Vice Chairman

No.

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

Okay, Section 5.

Adam B. Bergman
Sterling Capital Management LLC

I'm Adam Bergman with Sterling Capital in Virginia Beach, Virginia. Earlier today, Mr. Munger commented on the valuation of China versus the U.S. market. My question for you is are market capped to GDP and cyclically adjusted PE still valid ways to consider market valuation? And how do those influence Berkshire's investment decision?

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

Charlie, I think -- well, I guess, Charlie is overall valued in China. I would say that both of the standards you mentioned are not paramount, at all, in our valuation of securities. It's harder -- people are always looking for a formula. And there is an ultimate formula but the problem is, you don't know what to stick in for the variables.

But the -- and that's the value of anything that the present value of all the cash is ever going to distribute. But the P/E ratios -- I mean, every number has some degree of meaning, means more sometimes than others. But the valuation of the business is -- it's not reducible to any formula, where you can actually put in the variables perfectly. And both of the things that you mentioned get themselves get bended around a lot. It's not that they're unimportant. But sometimes they're going to be very important, sometimes they're going to be almost totally unimportant. It's just not quite as simple as having 1 or 2 formulas, and then saying the market is undervalued or overvalued or the company is undervalued or overvalued. The most important thing is future interest rates. And people frequently plug in the current interest rate saying that's the best they can do, after all it does reflect the market's judgment. And the 30-year bond should tell you what people who are willing to put out money for 30 years and have no risk of dollar gain or dollar loss at the end of the 30-year period. But what better figure can you come up with? I'm not sure I can come up with a better figure. But that doesn't mean I want to use the current figure either. So I would say that I think Charlie's answer will be that he does not come up with China versus the U.S. market based on what you've mentioned as yardsticks. But well, Charlie, you tell them.

Charles Thomas Munger
Vice Chairman

All I meant was that, I said before, that the first rule of fishing is to fish where the fish are, is that a good fisherman can find more fish in China if your fish is the stock market. That's all I meant.

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

Yes. I want to go back to...

Charles Thomas Munger
Vice Chairman

It's a happier hunting ground.

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

This doesn't really directly relate to -- I want to go back to one question that was mentioned earlier. I really think if you want to be a good evaluator of businesses, an investor, you really ought to figure out a way without too much personal damage to run a lousy business for a while. I think you learn a whole lot more about business by actually struggling with a terrible business for a couple of years than you learn by getting into a very good one, where the business itself is so good that you can't mess it up. I don't know whether Charlie has a view on that or not. But certainly, it was a big part of our learning experience. And I think a bigger part in the sense of running -- about being involved with good businesses was actually being involved in some bad businesses and just seeing...

Charles Thomas Munger
Vice Chairman

How awful it was.

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

How awful it is and how little you can do about it and how IQ does not solve the problem and a whole bunch of things. It's a useful experience, but I wouldn't advise too much of it. Don't you think so, Charlie?

Charles Thomas Munger
Vice Chairman

It was very useful to us. There's nothing like personal, painful experience if you want to learn. And we certainly had our share of it.

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

Okay. Becky?

Becky Quick

This question comes from [Tom Spanfelner]. And he'd like to become [Tom Span] from Pennsylvania. He says in life, business and investing, strategies often work until they don't work. Other than a massive insurance loss, any thoughts on what could cause the Berkshire enterprise to not work?

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

I think the only...

Charles Thomas Munger
Vice Chairman

Good question.

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

Yes. Well, if there were some change, if we've got some infection, outside agent of some sort to change the culture in some major way, an invasion of different thought. But as a practical matter, I don't think anything -- and it's the things you can't think of. But I can't think of anything that can harm Berkshire in a material, permanent way except weapons of mass destruction. But I don't regard that as a low probability. It would take a recession, a depression, a panic, hurricanes, earthquakes, they all would have some effect. And in some cases, they might even lead that we would do better because of them. But if there were a successful, as measured by the aggressor, nuclear, chemical, biological or cyber-attack on the United States, and there are plenty people who would like to pull that off or organizations and maybe a few countries, it could disrupt society to such an extent that it would harm us. But I think with the variety of earning streams, with the asset positions, with the general philosophy, as I'd like to call it, I think that we would be very close to the last one affected. But if somebody figures out how to kill millions of Americans and totally disrupt society, then all bets are off. Charlie?

Charles Thomas Munger
Vice Chairman

Yes, well, I agree. It would take something really extreme. And just take the question like British Petroleum took a huge loss with one oil well blowing. And Berkshire has all these independent subsidiaries and they really are independent. And what the parent company [does not allow] is if there's one horrible accident somewhere, we would tend to pay, of course, maybe more than our legal liability. But we are not one accident and one subsidiary that cause a big lot of damage. We're better protected than most companies. In every way, Berkshire is structured to handle stresses.

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

It's the kind of thing we think about all the time. And we thought about it ever since we started. But I really don't know any company that could take more general adversity or even specific adversities. But if you get into what could happen with weapons of mass destruction, that is something we can't predict about. But if that ever happens, there will be more to worry about than the price of Berkshire. Jay?

Jay H. Gelb
Barclays PLC, Research Division

Berkshire Hathaway Specialty Insurance generated $1.3 billion of premium volume in 2016. This business is on the smaller end of commercial property casualty insurers in terms of scale, although its volume did grow 40% last year. In a highly competitive commercial P&C environment, what gives you confidence that Berkshire Hathaway Specialty is destined to become one of the world's leading commercial P&C insurers as you said in this year's annual letter?

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

Yes, I think it will be. And I think how fast it grows, it does depend very much on the market. I mean, we are not interested in trying to be a price cutter in a market where the prices are already aren't that attractive. But we have built the scale worldwide. And a lot of this just have been added in recent months and just over the past year. We have -- we will grow. We will grow a lot. But if the market should turn hard for any reason, we would grow a lot faster. But we are destined at Berkshire Hathaway Specialty to be one of the leading PC firms in the world just as we were destined to have -- when Ajit came in, even though we had nothing, we were destined to become a very important reinsurer throughout the world, and in certain ways almost the only reinsurer for certain types of risks in the world. And we've got the people, we've got the capital, we've got the reputation. There is no stronger company in the insurance world and there won't be than the Berkshire Hathaway insurers. We've got the talent there. So it will grow. It may grow slowly some years. It may have big jumps, just like the reinsurance operation did many years ago.

But it's a very important addition to Berkshire that brought that on. I just wish we could have started a little earlier. But you had to have the right people and they came to us. And as you say we wrote whatever it was, $1.3 billion or $1.4 billion last year, and we'll write more this year. But we won't write as much as if we were in a hard market. Station 6?

Sally Burns

My name is Sally Burns. I'm from Australia, but I currently reside in Austin, Texas. My question, Mr. Buffett, I have heard that Mr. Munger says your greatest talent is that you're a learning machine, that you never stop updating your views. What are the most interesting things you've learned over the last few years?

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

Well, it is fun to learn. I would say Charlie is much more of a learning machine than I am. I'm a specialized one that needs a much -- and he does as well as I do in my specialty. And then he's kind of much more a general absorption rate than I have about what's going on in the world. But it's a world that gets more fascinating all the time. And a lot of fun can occur when you learn you were wrong in something. That's when you really learn that the old ideas really weren't so correct and you have to adapt new ones. And that, of course, is difficult. I don't know that I would pick out -- well, I think actually what's going on in America is terribly, terribly interesting politically and all kinds of things. But just the way the world is unfolding, it's moving fast. I do enjoy trying to figure out not only what's going to happen, but what's even happening now. But I don't think I've got any special insights that would be useful to you, but maybe Charlie does.

Charles Thomas Munger
Vice Chairman

Well, I think buying the Apple stock is a good sign in Warren. And no, he did run around Omaha as he was going to take his grandchildren's tablets away. And I mean, he did market research. And I do think we keep learning. And more important, we keep -- we don't unlearn the old tricks. And that is really important. If you look at the people who try and solve their problems by printing money and lying and so forth, take Puerto Rico. Who would have guessed that a territory of the United States would be in bankruptcy? Well, I would have predicted it because they behave like idiots.

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

We did not buy any Puerto Rico bonds.

Charles Thomas Munger
Vice Chairman

No. And if you go to Europe -- well, if you go to Europe, just look at the government bond portfolios we're required to hold in Europe. There's not only no Greek bonds, those are bonds of nobody but Germany. Just everywhere you look in Berkshire, somebody is being sensible. And that is a great pleasure. And then if you combine that with being very opportunistic so that when something comes along, like a panic, well, it's a nice -- it's like playing with the 2 hands instead of 1 in a game that requires 2 hands. It helps to have a fair-sized repertoire. And Warren, we've learned so d*** much. There are all kinds of things that we've done in the last 10 years we would not have done 20 years ago.

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

Yes, that's true. Although if you take -- it's interesting, I've mentioned this before. But one of the best books on investment was written, I think, in 1958, I think I read it around 1960, by Phil Fisher called Common Stocks and Uncommon Profits and...

Charles Thomas Munger

Vice Chairman

All the companies went to hell eventually.

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

But it talked about the importance -- I mean, or the usefulness of what he called the Scuttlebutt Method. And that was something I didn't learn from Graham. But every now and then, it's turned out to be very useful. Now it doesn't solve everything -- and I mean, there's a whole lot of...

Charles Thomas Munger
Vice Chairman

I saw you do it with American Express and the Salad Oil Scandal.

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

Yes.

Charles Thomas Munger
Vice Chairman

And you're still doing it with Apple decades later.

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

Yes, in certain cases, you actually can learn a lot just by asking a lot of questions. And I give Phil Fisher credit. That book goes back a lot of years. But as Charlie says, some of the companies he picked as winners forever did sort of peter out on him. But the basic idea that if you can learn a lot of things just by asking in some cases -- I mean, I used to -- I mean, if I got interested in the coal industry, just say, to pick one out of the air, when I was much younger, more energetic, if I went and talked to the heads of 10 coal companies and I asked each one of them way later into the conversation after they got feeling very -- they felt like talking. And I'd just say, "If you had to go away for 10 years on a desert island and you had to put all of your family's money into one of your competitors, which one would it be and why?" And then I'd asked them, "If they had to sell short one of their competitors for 10 years with all their family money, why?" And everybody loves talking about their competitors. And if you do that with 10 different companies, you'll probably have a better fix on the economics of the coal industry than anyone of those individuals has. I mean, there's ways of getting at things and sometimes they're useful and sometimes they're not. But sometimes they can be very useful. And the idea of just learning more all the time about -- I'm more specialized than that, by far, than Charlie. I mean, he wants to learn about everything, and I just want to learn about something that will help Berkshire. But it's a very useful attitude to have toward the world. And of course, I don't know who said it, but somebody said, "The problem is not in getting the new ideas but shedding the old ones." And there's a lot of truth to that.

Charles Thomas Munger
Vice Chairman

We would never have bought Iscar if it had come along 10 years earlier. We would never have brought Precision Castparts if it had come along 10 years earlier. We are learning. And my God, we're still learning.

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

Okay, Andrew?

Andrew Ross Sorkin

Warren, this is my final question. In 2012, you were quoted as saying, "I think health care problem is the#1 problem of America and of American business. We have not dealt with that yet." Do you believe that the current administration's plan to repeal and replace ACA will ultimately benefit the economy and Berkshire or not?

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

Yes. Well, I'll answer -- I'll give you 2 answers here. The first one being that if you go back to 1960 or thereabouts, corporate taxes were about 4% of GDP. I mean, it bounced around some. And now they're about 2% of GDP. And at that time, health care was 5% of GDP and now it's about 17% of GDP. So when American business talks about taxes strangling our competitiveness or that sort of thing, they're talking about something that, as a percentage of GDP, has gone down from 4% to 2% while medical costs, which are borne to a great extent by business, have gone from 5% to 17%. So medical costs are the tapeworm of American economic competitiveness, I mean, if you're really talking about it. And business knows that. They don't feel like they can do much about it. But it is not -- the tax system is not crippling Berkshire's competitiveness around the world or anything of the sort. Our health costs have gone up incredibly and will go up a lot more. And if you look at the rest of the world, there were half a dozen countries that were around our 5% if you go back the early years. And while we're at 17% now, they're at 10% or 11%. So they have gained a 5 or 6 point advantage, the world and even in these countries with fairly high medical costs.

Charles Thomas Munger
Vice Chairman

And that's with socialized medicine.

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

Yes. So it's a huge -- whatever I said then goes and is accentuated now. And that isn't the problem -- I mean, that is a problem the society is having trouble with and is going to have more trouble with, regardless of which party is in power or anything of the sort. It almost transcends that. In terms of the new act that was passed a couple of days ago versus the Obama administration act, it's a very interesting thing. All I can tell you is the net effect of that act on one person is that my taxes, my federal income taxes would have gone down 17% last year if the act -- if what was proposed went into effect. So it is a huge tax cut for guys like me. And you'll have to figure out the effects of the rest of the act. But the one thing I can tell you is if it goes through the White House, put in, I mean, anybody with $250,000 a year of adjusted gross income and a lot of investment income is going to have a huge tax cut. And when there's a tax cut, either the deficit goes up or they get the taxes from somebody else. So as it stands now, that is the one predictable effect if it should -- passes. And the Senate will do something different and would go over a conference and who knows what happens. But that is in the law that was passed a couple of days ago. Charlie?

Charles Thomas Munger
Vice Chairman

Well, I certainly agree with you about the medical care. What I don't like about the medical care is that a lot of -- we're getting too much medicine. There's too much chemotherapy on people that are all but dead and all kinds of crazy things go on in Medicare and the other parts of the health system. And there are so many vested interests that it's very hard to change. But I don't think any rational person looking objectively from the outside of the American system of medical care. We all love about the new life-saving stuff and the new chemotherapies and the new drugs and all that. But my God, this system is crazy. And the cost is just going wild. And it does put our manufacturers at a big disadvantage with other people where the government is paying the medical costs. And so I agree with Warren totally.

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

If you had to bet 10 years from now, will it be higher or lower than 17% of GDP?

Charles Thomas Munger
Vice Chairman

Well, if present trends continue, it will get more and more. There's huge vested interest in having this thing continue the way it is. And they're very vocal and active and the rest of us are indifferent. So naturally, we get a terrible result. And I would say that on this issue, both parties hate each other so much that neither one of them can think rationally. And I don't think that helps either.

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

And it is kind of interesting that if federal government spends or raises, I will say, $3.5 trillion or something like that, I mean, the degree of concern everybody has about that, that seems fairly steady in the 18% or so of GDP, plus or minus a couple of points. But $3 trillion plus is spent on health care and everybody wants the best, and it's perfectly understandable. But it's a very, very -- it's a big number compared to the whole federal budget. I mean, there's some overlap and all of that. But it's -- if you talk about world competitiveness of American industry, it's the biggest single variable, where we keep getting more and more out of whack with the rest of the world. And it's very, very tough for political parties to attack it. Basically, it's a political subject.

Charles Thomas Munger
Vice Chairman

And a lot of it is deeply immoral. If you have a group of hospital people and doctors that are feasting like a bunch of jackals on the carcass of some dying person, it's not a pretty sight.

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

Tell them about that group out in California that...

Charles Thomas Munger
Vice Chairman

Yes. This is Redding. This is one of my favorite stories. There were a bunch of very ambitious cardiologists and heart surgeons in Redding. And they got the thought that really what a heart was, was a widow-maker. So everybody -- every patient that came in, they said, "You've got a widow-maker in your chest and we know how to fix it." And so they recommended heart surgery for everybody. And of course, it involved a huge volume of heart surgery, and they got very wonderful results because nobody comes through heart surgery better than a man who doesn't need it at all. And they made so much money that the hospital chain, which was Tenet, brought all its other, hospitals, "Why can't you be more like Redding?" And this is a true story and went on and on and on. And finally, there was some beloved Catholic priest, and they said, "You've got a widow-maker in your chest," and he didn't believe them and he blew the whistle.

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

He's a priest. You can see why he didn't believe them.

Charles Thomas Munger
Vice Chairman

At any rate, well, when you've got a routine, you just keep using it, heart as a widow-maker, it's a widow-maker. Later, I met one of the doctors that threw these people out of the medical profession. And I said to him, "In the end, did they think they were doing anything wrong?" He said, "No, Charlie, they thought that what they were doing was good for people." That is why it's so hard to fix these things. The self -- the delusion that comes into people as they make money and get more successful by doing god-awful things should never be underestimated. And there's a lot of -- a lot of that goes on and you get on to such gross craziness. And you've got little Wells Fargo that looks like innocence. "I had a little trouble with this incentive system." But the heart surgery rate was 20x normal or something, you think you'd notice if you're running a hospital. But they did notice, they wanted the other hospitals to be more like it.

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

They had a terrific success ratio. Okay. Gregg?

Greggory Warren
Morningstar Inc., Research Division

Warren, as you look forward and take into consideration some of the headwinds faced in the U.S. based utilities, including weaker electricity demand growth, as increasing energy efficiency impacts demand. Distributed generation which makes vertically integrated utilities doubly hard as they face both declining energy sales revenue and increased network cost to support reliable delivery. And third, higher interest rates, which would increase borrowing costs. What are the key attributes that Berkshire Energy would be looking for in future acquisition candidates?

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

Excuse me, I'm sorry.

Greggory Warren
Morningstar Inc., Research Division

In particular, are there advantages or disadvantages attached to, say, transmission assets relative to generation assets that would make you favor one over the other?

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

Yes, well, generation assets, you can say, have inherently more risk because that some of them like a...

Charles Thomas Munger
Vice Chairman

Be stranded.

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

Stranded or -- yes, or obsolete. Now the question is how they treat stranded and all of that sort of thing. We -- on the other hand, more of the capital investment is in the generating assets. So that tends to be where a good bit of the capital base is. We like the utility business, okay. I mean, the electricity demand is not increasing like it was. As you point out, they're going to be stranded assets. They -- if they're stranded because of rank foolishness, and they will probably be less -- or the utility commissions will be less inclined to let you figure that in your rate base as you go forward as opposed to things that are more societal, demands are just changing. But we still think the utility business is a very decent asset. The prices are very high. But that's what happens in a low interest rate environment. I would be -- I'd be surprised if 10 years from now, we don't have significantly more money in not only wind and solar, but probably, we'll probably own more utility systems than we own now. We're a buyer of choice with many utility commissions. In fact, we put up a slide, there's a slide which shows something about our pricing compared to other utilities. And Greg Abel and his group have done an extraordinary job. They've done it in safety, they've done it in reliability, they've done it in price, they've done it in renewables. It's hard to imagine a better run operation than exists in MidAmerican Energy. And people want us -- with that record, people want us to come to their state in many cases. But when prices get to the level they have, I mean, some utilities are sold at extraordinarily prices. And we can't pay them and have that makes sense for Berkshire shareholders. But just because we can't do it this year, it doesn't mean it won't happen next year or the year after. So I think we'll get a chance.

Charles Thomas Munger
Vice Chairman

And our utilities are not normal. The way Greg has run those things, they're so much better run in every way than normal utilities. They're better regarded by the paying customers. They're better regarded by the regulators. They have better safety records each year. It's just everything about it, it's the way the hell better. And it's a pleasure to be associated with people like that and to have assets of that quality. And it's a lot safer. If somebody asked Berkshire to build a $50 billion nuclear plant, we wouldn't do it.

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

Yes. We have public power here in Nebraska. I mean, it's been sort of the pride of Nebraska for many decades. It's all -- there are no privately held utility systems and totally public power. And those utilities have no requirements for earnings on equity. They have, they can borrow at tax-exempt rates, we have to borrow at taxable rates. And Nebraska -- not that much different than Iowa. And we're selling electricity across the river a few miles from here at lower prices than it exists in Nebraska. So it's an extraordinary utility, and if it is lucky, well, we got too involved in that. I thank Walter Scott, our director, for introducing me to it almost 17 or 18 years ago or so. And -- but I don't think the utility business as such, I mean, if I were putting together a portfolio of stocks, I don't think there would be any utilities in that group now. But I love the fact we own Berkshire Hathaway Energy.

Charles Thomas Munger
Vice Chairman

But it's different, radically different and better.

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

A lot better, actually. Station 7?

Unknown Attendee

My name is [Grant Misterly] from beautiful, historic St. Augustine, Florida. I've been a fan of yours and Berkshire since I was a kid, looking through the stock pages and seeing one crazy stock that traded for $10,000 a share. Unfortunately I wasn't able to convince my parents to buy it at that point. But now I'm a shareholder as an adult, I'm here with my daughters, [Mabel] who is 7 and [Villa] who was 1-year-old and my wife. I voraciously read the letter every year. And I love the stories of -- from the different companies, GEICO, and See's, BNSF, they kind of teach investing lessons. And this year, when I was looking through the accounting information at the back, I noticed that one company McLane, contributes a lot of revenue, a large portion of Berkshire's revenue and to a lesser extent, earnings. But I don't ever see much about it in the annual report. So I'm curious why we don't care more about that company. And are there any investing lessons like we get from See's and GEICO that you can share about that company?

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

Yes, McLane, the reason you see their figure separately is because the SEC has certain requirements. They are based on sales. And McLane is a company that has an extraordinary amount of sales in relation to intrinsic value or to net income. It basically is a distributor of -- well, it's a huge customer, for example, of the food companies, the candy companies, the cigarette companies that go up and down the line of anything that goes into convenience stores. But we bought it from Walmart. And Walmart is our biggest customer. I can't tell you the precise volume, but -- well, if you get Walmart's and Sam's together, you're getting up to 20% plus. But it's nationwide. But in the end, it operates on about 6% gross margins and 5% operating expenses. So it has a 1% pretax margin. And obviously, a 1% pretax margin only works in terms of return on capital if you turn your equity extraordinarily fast. And that's what McLane does. Being a wholesaler, it's moving things in, moving things out very fast, very efficiently and it does this. It also has a few liquor distribution subsidiaries that have wider margins. But the basic McLane business is $45 billion plus, makes 1% pretax on sales. But the return on capital is very decent. But it sort of has an outsized appearance, simply because of this huge volume of sales that go through it. Grady Rosier who runs it is exceptional. He was there when we bought it from Walmart, whatever, it was a dozen years ago. And I've been there once, they've got thousands and thousands of trucks, big distribution centers all over the country. It was a major factor in moving goods in wholesale. I mean, if you are a Mars Candy or something of that sort, I mean, we will be the biggest customer. But that pretty well describes the business. It's a business that earns good returns in relation to invested capital and in relation to our purchase price. But every $0.001 is important in the business. [In fact], moving your receivables exceptionally fast and consequently, you have payables moving big time. So the sales are 30x receivable, 30x payables. You've gotten maybe 35-or-so x inventory. I mean, this is a business that's moving a lot of goods. But in terms of it's -- it's an important subsidiary but not as remotely as important as what would be indicated by the sale, still very important making the kind of money that shows up in the 10-K. Charlie?

Charles Thomas Munger
Vice Chairman

You said it all.

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

That's was an interesting thing. Walmart wanted to sell it. They came to see us and we made a deal. The CFO came. We talked for a while. He went into the other room, called the CEO, came back and said, you have a deal. And Walmart has told me subsequently that they never had a deal that closed this fast as the one with Berkshire. I mean, they -- we said, what we would pay, it was cash. And we got it done very promptly and they were terrific on their side.

Charles Thomas Munger
Vice Chairman

By the way, that reputation for being quick and simple in doing what we've promised and so on has helped Berkshire time after time.

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

Yes, yes. We wouldn't have made that deal without essentially having that reputation. But they knew...

Charles Thomas Munger
Vice Chairman

We bought the Northern Natural Gas Company in 1 weekend, and they wanted the money on Monday...

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

They needed the money on Monday.

Charles Thomas Munger
Vice Chairman

Before the lawyers can complete the legal papers, we managed to do it.

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

Well, not only that. But I think it took some clearance by -- in Washington. And essentially, I think I wrote a letter and said that if they didn't -- if they decided after looking at it, they didn't want to clear it, we'd undo the deal. But these guys needed the money so bad, we're going to give them the money. Essentially based on the deal clearing, and there wasn't any reason why it wouldn't clear, but that was just a procedural problem. But most companies can't do that. I mean, we can. We got a flexibility that, really, in most large companies just plain doesn't exist or too many people have to sign off on it or something or that sort. So the Northern Natural deal would not have been made if we'd had followed the normal time table. But...

Charles Thomas Munger
Vice Chairman

And it's a lovely business [dome].

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

Yes, absolutely. Now we were moving from one station to another between now and 3:30. So we are now going to Station 8.

Unknown Attendee

Warren and Charlie, I'm [John Norwood] from Weston, Iowa. You guys have iron bladders.

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

We won't tell you the secret to that.

Unknown Attendee

I was wondering about the contraption under the table.

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

No, no. You can come down and inspect.

Unknown Attendee

All right. Yes, I have a question for each. Warren, I was fortunate to ask you a question, I think, in 2011 about legacy and what you wanted to be known for 100 years from now. And I'm kind of curious to hear what Charlie would like to be known for. Warren, I'm 52 so I guess you started this -- doing this when I was born, and I'm kind of interested in a memory from your first annual meeting.

Charles Thomas Munger
Vice Chairman

My first memory was when Warren got on the subject and they asked him, "What he wanted said at his funeral?" He said, "I want them to all be saying that's the oldest looking corpse I ever saw." And...

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

That maybe the smartest thing I've ever said. With me, it's very simple. I really like teaching, so basically, that -- I've been doing it formally and people say somewhat informally all my life, and I've certainly had the greatest teachers you can imagine. So if somebody thought that I did a decent job at teaching, I'd feel very good about that.

Charles Thomas Munger
Vice Chairman

Yes, and it -maybe -- teaching endurable, it has to have a bit of wise-*ssery in it. And that we've both been able to supply.

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

And for those of you who are old-time basketball fans, I may have mentioned that on Wilt Chamberlain's tomb it was refuted, it was going to say, "At last I sleep alone." Okay, Station 9.

Unknown Attendee

Mr. Munger and Mr. Buffett. My name is [Ji Yun Jiang], and I've come from China. It's my first time to come to this meeting. And I think I'm very lucky to have a chance to ask questions.

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

We are glad to have you.

Unknown Attendee

And everyone has personal dreams and -- at different age, maybe dreams will come differently, and what's your dream now?

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

Charlie, I'll let you take that one.

Charles Thomas Munger
Vice Chairman

I didn't quite hear that.

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

What's your dream now, she said.

Charles Thomas Munger
Vice Chairman

My dream? Well.

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

Let's get the first one.

Charles Thomas Munger
Vice Chairman

Sometimes, when I'm especially wishful, I think, oh, to be 90 again. And I've got some advice for the young. If you've got anything you really want to do, don't wait till you're 93 to do it.

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

That's the same thing I would tell students, is that you can't always find it the first time or the second time. But when you go out in the world, look for the job that you would take if you didn't need a job. I mean, don't postpone that sort of thing. Somebody, I think it was Kierkegaard said that "Life must be evaluated backwards; but it must be lived forwards." And you want to sort of -- Charlie says, all he wants to know is where he'll die, so he'll never go there. And so you do want to do a certain amount of reverse engineering in life. I mean, that's not -- it doesn't mean you can do everything that way. But you really want to think about what will make you feel good when you get older about your life and you, at least generally, want to keep going in that direction. And you need some luck in life, and you got to accept some bad things that are going to happen as you go along. But life has been awfully good to me and Charlie so we have no complaints.

Charles Thomas Munger
Vice Chairman

What you don't want to be is like the man when they have his funeral and Minister says, "Now it's the time for somebody to say something nice about the deceased," and nobody came forward and nobody came forward. He says, "Surely, somebody can say something nice about the deceased." and nobody came forward. And finally, one man came up and he said, "Well, he said, his brother was worse."

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

Yes. Okay, we'll move to Station 10, and see if we can improve on that.

Lijun Lin

My name is Andy Lijun Lin from Loyal Valley Innovation Capital from Shanghai. This is my sixth year from Shanghai to here. I have to say to you two, Warren and Charlie, you are highly respected and are deeply loved by millions and millions or even billions globally. I have 2 questions today. First question, in your letters to shareholders, you said you believe EBITDA is not a good parameter to value a business. Why is that? Can you elaborate on that? Second question, you both have very successful and happy lives with great respect. My question is to each of you, in retrospect, from a personal standpoint, did you have regrets in life? If there is one thing you have done differently in your life, family, personal or business? What is it? Thank you very much.

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

Yes, I don't think you should expect to just answer that on personal. But if in business, I would say, I wish I'd met Charlie earlier. We've had a lot of fun ever since I was 29 and he was 35. But that would have been even more fun if we had started many, many years earlier. We had a chance, too, we worked in the same grocery store, but not at the same time. In respect to EBITDA. Depreciation is an expense, it's the worst kind of an expense. We love to talk about float and float is where you get the money first and we have the expense later. Depreciation is where you spend the money first and then record the expense later. And it's reverse float and it's not a good thing. And to have that entered into a [movable], it's much better to buy a business that has everything else being equal, has no depreciation because it has essentially no investment in fixed assets and makes X than it is to buy a company that where there's a lot of depreciation in getting to X. And actually, I may write a little bit more on that next year because it's such a mass dilution and of course, it's in the interest of Wall Street enormously to focus on something called EBITDA because it results in higher borrowing power, higher valuations and all that sort of thing. So it's become very popular in the last 20 years. But I -- it's a very misleading statistic and can be used in very pernicious ways. Charlie, on either one of those subjects?

Charles Thomas Munger
Vice Chairman

I think you've understated the horrors of the subject and the disgusting nature of the people that brought that term into the valuation of business. It was just -- it would be like a leasing broker of real estate who's had 1,000 square foot new suite to be leased and he says it's got 2,000 feet in it. That's not honorable behavior. And that's the way that term got into common usage. Nobody in his right mind will think the depreciation is not an expense.

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

Yes, but it's very much in the interest of Wall Street.

Charles Thomas Munger
Vice Chairman

Yes, that's why they did it. It made the multiple seem lower.

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

And what's amazing is the way it's accepted actually. But anyway, it just illustrates that how people use language and all -- and sell concepts that work to their own use and 2 and 20 has the same sort of thing. I mean, the number of people, the amount of money that's over-performed after paying 2 and 20 compared to the expenses that have been incurred, I will ensure you, it makes worth terrible indictment of that particular arrangement. But as long as it can get sold, it will get sold and...

Charles Thomas Munger
Vice Chairman

And now they use it in the business schools. Now that is horror squared. I mean, it's bad enough that a bunch of thieves start using a term. But when it gets so common to the business schools copy it. That is not a -- that's not a good result.

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

Okay. Station 11.

Unknown Shareholder

I'm [Whitney Tilson], a shareholder from New York. My question is related to the ones asked earlier about job cuts. Perhaps the only thing that makes American workers angrier than layoffs is to shut down an operation entirely and move the jobs overseas. Ask anyone in Ohio or Michigan, and they'll tell you stories about companies that have been operating in those states for decades benefiting from the educational system, infrastructure and so forth, things that were paid for by local taxpayers. But then some high paid consultants came along and showed the company how it could reduce its costs by relocating production to Mexico or China and poof, the good U.S. jobs disappear. My observation is that most investors and those in corporate America today worship at the altar of maximizing shareholder value which is code for doing whatever is necessary to boost the share prices as high as possible. But in doing so, companies are taking actions that make millions of workers feel at best fearful and left behind and at worst deeply harmed by corporate America. It makes so many people so angry that I think it's testing the post-World War II economic order, which is rooted in free trade and even the strength of our democracy. I'd argue that it was decisive in our last election. So my question to you is, do you think that businesses should consider factors outside of pure economics when making these types of decisions? What obligations, if any, do they have to their employees and communities in which they operate? And lastly, if a Berkshire CEO came to you and asked for your approval to close a U.S. operation and relocate it overseas to save money, what questions would you ask beyond the economics of this decision?

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

Well, the truth is that in certain cases, production that would otherwise -- that formerly would have been in the United States has definitely been supplanted by production that come from other parts of the world. Originally, I was there when through the Fruit of the Loom was called Union Underwear and bought by Graham-Newman Corp. in 1955, I believe, and it was probably all domestic then. And the truth is, if it was all domestic now, it wouldn't exist. We had the same thing happen with Dexter Shoe. And it was a wonderful company and skilled workers and in the end, we sold the shoes at a price that yielded what they cost us. They were not competitive with shoes from around the world. Now trade, I would argue both ways, export, import, massive trade should be and is actually, enormously beneficial, both in the United States and in the world. I mean, it will -- greater productivity will benefit the world in a general way but to be roadkill, to be the textile worker in New Bedford, that was put out of a job eventually. To be the shoe worker in Dexter, at Dexter to be put out of work. I mean, it would be no fun to go through life and saying I'm doing this for the greater good and so that shoes or underwear was offered 5% less or something and the American public will actually never know. So what you need is 2 things in my view. We've got an enormously prosperous company -- country, you've got almost $60,000 of GDP per capita, it's unbelievable. 6x what it was when I was born in real terms. So we've got the prosperity and that prosperity is enhanced by trade. We were only exporting 5% of our GDP back in 1970, and that's -- I think it's around 12% or something like that now. We are doing what we do best. But we need an educator in chief who, logically, the President, I don't mean this specific President. I mean, any President that's been around for decades, has to be able to explain to the American public, the overall benefits of, essentially, free trade. And then beyond that, we had to have policies that take care of the people that become the roadkill in the process because it doesn't make any difference to me as far as I'm concerned, if my life is miserable because I've been put out of business by something that's good for 320-some million people in some infinitesimal way and it's messed up my life when I've tried to live it in a proper way. So we have got the resources to take care of those people. The investors, I don't worry about. I wrote about this a few years ago. The investors can diversify their investments in such a way that overall trade probably benefits them and they don't get killed by a specific industry condition. But the worker, in many cases, can't do that. You're not going to retrain some 55-year-old worker in New Bedford who may not even speak English in our textile mill or something. I mean, they -- if they get destroyed by something that's good for society, they get destroyed unless government puts in some policies that takes care of people like that. And we've got a rich society that can do that, and we've got a society that it will benefit by free trade. And I think we ought to try to hit both objectives of making sure that there is not roadkill and that at the same time, again, 320 million people get the benefits of free trade.

Charlie?

Charles Thomas Munger
Vice Chairman

Well I don't quarrel with that. And we have unemployment insurance for that exact reason. But I am afraid that the capitalist system is always going to hurt some people as it modifies and improves. There's no way to avoid it.

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

Yes, well capitalism is brutal to capital if you're in the wrong businesses. And like I say, you can diversify those results. Capitalism is brutal, the people that have the bad luck to be skilled or developed their skills for decades. But a rich cap, a very rich society can actually -- if it's beneficial to the society overall, it can take care of those people. I mean, it's just -- the new tax -- the bill that was passed a couple of days ago, reduces my taxes by 17%, and is that needed by the government?

Charles Thomas Munger
Vice Chairman

I wouldn't start spending the money.

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

No. But that was the -- well, I mean, no, I agree. I don't think -- who knows what happens with the bill, but I'm just -- to have that happen, and I don't think -- I think if you polled 1,000 people in Omaha that were walking through a shopping center, whether my tax bill -- by some very large sum because of what passed, I don't think many people would have the faintest idea what happened in terms of the coverage of it and all of that, that took place. So we've got -- we do have probably more like $57,000 or $58,000 of GDP per capita, family of 4, $230,000. But nobody should be roadkill in this...

Charles Thomas Munger
Vice Chairman

Well remember what Bismarck said, "There are 2 things that you have to watch. One is the making of sausage and the other is the making of legislation.

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

Yes. Well, I would say there's somebody you ought to watch. Anyway, we've hit the magic hour of 3:30. We'll reconvene at 3:45 to do have a formal board -- formal Shareholders' Meeting, and that may take a while, so you're welcome to stay and watch that or you're welcome to shop and I might even have a small preference to that, but do whatever you wish, okay?
[Break]

Presentation

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

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 of this meeting and she will certify to the count of votes cast and the election for directors and the motions to be voted upon at this meeting.

The main proxy holders for this meeting are Walter Scott and Marc Hamburg.

Does the Secretary have a report of the number of Berkshire shares outstanding -- you don't mind keeping the lights on more so I can read this -- outstanding entitled to vote and represented at the meeting?

Sharon L. Heck
Vice President and Secretary

Yes, I do. As indicated in the proxy statement that accompanies the notice of this meeting that was sent to all shareholders of record on March 8, 2017, the record date for this meeting, there were 770,994 shares of Class A Berkshire Hathaway common stock outstanding, with each share entitled to 1 vote on motions considered at the meeting, and 1,310,304,247 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to 1/10 -- 0.001 of 1 vote on motions considered at the meeting. Of that number, 538,915 Class A shares and 734,450,954 Class B shares are represented at this meeting by proxies returned through Friday afternoon, May 5.

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

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

The first item 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 before the meeting.

Walter Scott
Director

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

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

Do I hear a second?

Unknown Attendee

I second the motion.

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

The motion has been 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

Didn't know there were many, but 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. To shareholders present who did not send in a proxy or who wishes to withdraw a proxy previously sent in, you may vote in person on the election of directors and other matters to be considered at this meeting. Please identify yourself to one of the meeting officials in the aisles so that you can receive a ballot.

I recognize Mr. Walter Scott to place 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?

Unknown Attendee

I second the motion.

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

It's been moved and seconded that Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Thomas Murphy, Ronald Olson, Walter Scott and Meryl Witmer be elected as directors.

Are there any other nominations or any discussion?

The nominations are ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballots 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 are ready, you may give your report.

Rebecca K. Amick
Director of Internal Auditing

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Friday afternoon, casts not less than 601,375 votes for each nominee. That number exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the Secretary to be placed with the minutes of this meeting.

Warren E. Buffett
Chairman 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, Ronald Olson, Walter Scott and Meryl Witmer have been elected as directors.

The next item on the agenda is an advisory vote on the compensation of Berkshire Hathaway's executive officers. I recognize Mr. Walter Scott to place the motion before the meeting at this time.

Walter Scott
Director

I move that the shareholders of the company approve, on an advisory basis, the compensation paid to the company's named Executive Directors as disclosed pursuant to Item 402 of Regulation S-K, including the compensation discussion and analysis and the accompanying compensation table and the related narrative discussion in the company's 2017 annual meeting proxy statement.

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

Is there a second?

Unknown Attendee

I second the motion.

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

It has been moved and seconded that the shareholders of the company approve, on an advisory basis, the compensation paid to the company's named Executive Officers.

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

Rebecca K. Amick
Director of Internal Auditing

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Friday afternoon, cast not less than 608,765 votes to approve, on an advisory basis, the compensation paid to the company's named Executive Officers. That number exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the Secretary to be placed with the minutes of this meeting.

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

Thank you, Ms. Amick. The motion to approve on an advisory basis the compensation paid to the company's named Executive Officers is passed.

The next item on the agenda as an advisory vote on the frequency of a shareholder advisory vote on compensation of Berkshire Hathaway's Executive Officers. I recognize Mr. Walter Scott to place the motion before the meeting on this item.

Walter Scott
Director

I move that the shareholders of the company determine, on an advisory basis, the frequency, whether annual, biannual or triannual, with which they shall have an advisory vote on the compensation paid to the company's named executives as set forth in the company's 2017 Annual Meeting proxy statement.

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

Is there a second?

Unknown Attendee

I second the motion.

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

It has been moved and seconded that the shareholders of the company determine the frequency with which they shall have an advisory vote on compensation of named Executive Officers with the options being every 1, 2 or 3 years. Ms. Amick, when you are ready, you may give your report.

Rebecca K. Amick
Director of Internal Auditing

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Friday afternoon, casts 131,268 votes for a frequency of every year; 1,954 votes for a frequency of every 2 years; and 476,661 votes for a frequency of every 3 years of an advisory vote on the compensation paid to the company's named Executive Officers. 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. Shareholders of the company have determined on an advisory basis that they shall have an advisory vote on the compensation paid to the company's named Executive Officers every 3 years.

The next item of business is the motion put forth by Clean Yield Asset Management on behalf of shareholders, [Tom Beers] and [Mary Durfee]. The motion is set forth in the proxy statement. The motion requests that the company provide a report on its political contributions. The directors recommended that shareholders vote against the proposal. I will now recognize [Eileen Drewery], I hope I'm pronouncing that right, to present the motion. To allow all interested shareholders present their views, I ask to limit -- and ask to limit her remarks to 5 minutes. And the microphone at the Zone 1 is available for those wishing to speak for or against the motion. Zone 1 is the only microphone Station in operation. For the benefit of those present, I ask that each speaker for or against the motion, with the exception of the original proposer, limit themselves to 2 minutes and confine your remarks solely to the motion. And do we have at Station 1, the representative of Clean Yield Management? Sorry, Clean Yield Asset Management.

Unknown Attendee

Yes. Good afternoon, Mr. Chairman, Board of Directors and my fellow shareholders. My name is [Eileen Drewery], and I have been asked to read the following statement by the filers of this proposal, [Tom Beers] and [Mary Durfee]. Our proposal #4 on the proxy ballot calls on Berkshire Hathaway to fully disclose the extent of its political spending. Why do we ask for this?

Corporate political spending is a controversial activity that must be carefully managed and overseen at the most senior levels of management. Mismanagement or misjudgment around political contributions can bring reputation damage, political risks and legal consequences. In recent years, at the urging of shareholders and other stakeholders, scores of companies have adopted stronger disclosure and better oversight of political contributions.

Best practices in this area include full disclosure of direct and indirect political contributions, descriptions of policies and procedures to ensure full legal compliance and a commitment to board oversight. But our company's policies in this area are so nonexistent or hidden that they have earned it a score of 0 for 6 years running on the leading rating system for corporate political disclosure and accountability, the CPA-Zicklin Index.

In contrast, 56% of the S&P make public a detailed policy governing political expenditures from corporate funds. Peers such as GE, Travelers, Unum, CSX and Norfolk Southern disclose political spending. In contrast, all we know about Berkshire's political spending is contained in the 2-paragraph response to our proposal in this year's proxy statement, which seeks to reassure us that Berkshire's political spending is small relative to its size.

But management's statements raises more questions than it answers. It says nothing, for example, about whether Berkshire gives to third-party like trade associations and 501(c)(4)s, which are leading sources of dark money, contributions that are nearly impossible to trace.

Since 2012, over $670 million in dark money was spent in the U.S. elections with no disclosure with who good underlying donors were. Fellow shareholders, as you know, our company is a large and complicated enterprise. Berkshire Hathaway ranks #4 in the Fortune 500. At a time when the trend among large companies is to be more open about their political spending and their policies regarding dark money vehicles, it doesn't behoove or benefit Berkshire Hathaway to be so secretive if it has nothing to hide. If you agree, please vote in favor of Proposal #4.

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

Thank you. Are there other people who wish to speak motion?

Unknown Attendee

Not that I know of.

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

Okay. Thank you. And I will tell you that, to my knowledge, in 52 years, Berkshire Hathaway at the parent company level has not made a political contribution. I don't -- I personally disagree strongly with the Citizens United decision which was a 5 to 4 vote and I think that having unlimited contributions by wealthy individuals through Super PACs and -- or wealthy corporations either, I do not think it's a plus at all. I think it's a minus in our democracy and I think that big money does -- kind of often distort the political process. It's a reality that any of our subsidiaries in heavily regulated industries are probably going to have to make some political contributions if their competitors do it.

And I tell our managers basically if they -- I don't want them making contributions on their own personal preferences in elections to be made from corporate funds and I would regard that as a breach of trust with Berkshire. But I do recognize that if they are in the railroad industry or the electric utility industry, whatever may be that there is a necessity essentially to make political contributions. And I'm sure they give money to people that I wouldn't vote for. But that is the reality of doing business in certain businesses which have a significant political aspect to their activities.

So the problem is my heart is with you to some extent in terms of I wish Citizens United had gone the other way. I don't like the idea of great sums being spent, but I do not think we -- I think personally, I think that it could be disadvantageous to actually list all of the political organizations to which people contribute when competitors [don't] and I think there's expense involved in all 3 of the proposals that are coming up on this one.

So I personally voted against the proposition. But I do hope like you that money plays a lesser part in politics, big money in the future and undisclosed money than it does now and I don't think the odds are good that the Supreme Court is going to reverse Citizens United.

So with that, I would say the motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballot on the motion and deliver their ballot to one of the meeting officials in the aisles. Ms. Amick, when you're ready, you may give your report.

Rebecca K. Amick
Director of Internal Auditing

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Friday afternoon, casts 64,449 votes for the motion and 542,399 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 all votes outstanding, the motion has failed. The certification required by Delaware law of the precise count of the votes will be given to the Secretary to be placed with the minutes of this meeting.

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

Thank you, Ms. Amick. The proposal fails.

The next item of business is put forth by Baldwin Brothers, Inc. on behalf of shareholder, [Marsha Sage]. The motion is set in the proxy statement. The motion requests that the company provide a report reviewing the company's policies, actions plans and reduction targets related to methane emissions from all operations.

The directors are recommending that the shareholders vote against the proposal. I will now recognize [Eileen Drewery] to present the motion. To allow all interested shareholders to present their views, I ask her to limit her remarks to 5 minutes.

Microphone at Zone 1 is available for those wishing to speak for or against the motion. Zone 1 is the only microphone station in operation. For the benefit of those present, I ask that each speaker for and against -- or against the motion limit themselves to 2 minutes, although [Ms. Drewery], that's 5 minutes in your case, and to confine your remarks solely to the motion.

Unknown Attendee

Mr. Chairman, members of the board and fellow shareholders. My name is [Eileen Drewery]. I am here to move Arjuna Capital and Baldwin Brothers proposal on behalf of [Marsha Sage], a long-term investor in our company.

Proposal 5 seeks to protect shareholder value by ensuring the transparent disclosure of our information regarding methane emissions. The reasons for this proposal are clearly in the interest of protecting long-term shareholder value. Leaked gas has a direct economic impact on our company, as it is no longer available for sale, establishing a clear business case for reduction targets and controlled processes. In fact, leaked methane represented $30 billion of lost revenue in 2012, equivalent to 3% of gas produced globally.

The National Resources Defense Council estimates that capturing currently wasted gas for sale could reduce methane pollution by roughly 80%. And while the climate benefit of replacing coal with natural gas has been widely publicized, that benefit is negated when leakage rates exceed 2.7% as methane carries 84x the global warming impact of CO_2 over a 20-year period.

Recent academic studies are particularly troubling as they have identified methane leakage for our north of current EPA estimates. Additionally, gas storage presents outsized risks. The 2015 failure of the gas injection well at Southern California Gas Company's Aliso Canyon storage field in Los Angeles revealed major vulnerabilities in the maintenance and safety of natural gas storage facilities. The incident exposed both a lack of oversight and contingency planning in the face of a well blowout.

Berkshire Hathaway has storage facilities that face similar risks as it is estimated to hold the 11th highest volume in natural gas in the country. There are over 400 gas storage facilities around the country, many of which were drilled decades ago. Numerous independent researchers have concluded that if natural gas is to lead to a more sustainable energy future, then methane emissions must be addressed.

Ongoing concerns have spurred public debate and lead to regulatory action at the state and federal level. A strong program of target setting measurement, mitigation and disclosure would indicate a reduction and regulatory risk as well as the efficient operations maximizing gas for sale and shareholder value. Given this, we believe our company has a tremendous opportunity to move forward by providing shareholders with this important information. ISS, the leading provider of proxy voting advice agrees, and has recommended a vote in favor, noting such disclosures would allow shareholders to better understand the company's management of its methane emissions and any related risks. Thank you for your consideration.

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

Are there other people who wish to speak on this motion?

Unknown Attendee

I don't believe so.

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

Okay. Motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballot on the motion and deliver their ballot to one of the meeting officials in the aisles.

[Voting]

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

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

Rebecca K. Amick
Director of Internal Auditing

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Friday afternoon, casts 57,600 votes for the motion and 542,870 votes against the motion. As the number of votes against the motion exceeds the majority of the number of votes of all Class A and Class B shares properly cast on the matter as well as all votes outstanding, the motion has failed. The certification required by Delaware law of the precise count of the votes will be given to the Secretary to be placed with the minutes of this meeting.

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

Greg, incidentally, is there a live microphone near the other? Why not talk a little bit about the methane situation.

Gregory Edward Abel
Chairman and Chief Executive Officer

Sure, Warren. So thank you for your comments. And when you think about methane emissions, it is a serious issue relative to carbon, it was highlighted 84x worse than a carbon emission, but I'd be very pleased to report on our situation at Berkshire Hathaway.

So 3 different issues were raised in the comments. One was overall emissions from oil and gas production. So the first thing I would just highlight is that we do not own any oil and gas producing assets. So we don't have any wells and effectively don't have that risk. The second thing that was highlighted was the significant loss of gas at Aliso Canyon. It was an injection well that failed, took many months to fix a well and if you fundamentally look at the problem there, and we do own other storage facilities, but we do not use their technology or that type of well. All of our wells are cased to the top which creates a very different risk and literarily can be mitigated within hours.

And then the third issue which was raised was leakage rates. And it was highlighted at least in a second response to the proposal that the leading companies in the industry have a leakage rate of 1% or they put together programs to achieve a leakage rate of 1%. And I'm happy to report when we look at our leakage rate from our pipelines, we're at 0.53 of 1%. So basically, half of the leading companies in the industry. So that, obviously support the recommendation of the shareholders.

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

Thanks, Greg. You've heard the vote and the proposal fails.

The next item of business is a motion put forth by shareholder, the Nebraska Peace Foundation. The motion is set forth in the proxy statement. Motion requests that the company divest of its holdings in companies involved in the extracting, processing or burning of fossil fuels.

The directors have recommended the shareholders vote against the proposal. I will now recognize Mark Vasina to present the motion. And again, to allow all interested shareholders to present their views, I ask him to limit his remarks to 5 minutes. And the microphone in Zone 1 is available for those who are wishing to speak for or against the motion. Zone 1 is the only microphone Station in operation and for the benefit of those present, subsequent speakers should I ask that they limit themselves to 2 minutes and confine your remarks solely to the motion. With that, if you'll proceed.

Mark Vasina

My name is Mark Vasina. I represent the Nebraska Peace Foundation. We're here to present our proposal asking Berkshire Hathaway to divest of its carbon-based assets over a period of 12 years, a period of time, we believe, is a very modest proposal indeed.

Last year, we were here with a proposal that Berkshire Hathaway evaluate and report on the impact of climate change on their insurance companies. After our -- after the meeting, we were approached by a number of shareholders who suggested we were pulling our punches, and they suggested the real question is divestiture. So we thought about it, we came back to ask for divestiture of the carbon-based assets.

We recognize that for a public company that's involved in investing in other companies, divestiture represents different kinds of challenges from those of university endowments, pension plans, public foundation such as the Bill and Melinda Gates Foundation, organizations which have divested or have the implemented divestiture plans. However, we believe that the necessity for divestiture involves more than just a social or ethical or even moral question, but also involves financial risk as the Bank of England in their recommendation to the insurance companies that they regulated that they investigate and report on the climate change risk to these companies.

They pointed out that financial risk of holding these carbon-based assets was real, unpredictable, things like regulatory risk, political risk, technology changes, investment -- investor sentiment changes. These things pose risks towards the financial value of assets in this type of investment.

So we are proposing, as I said, divestiture of all carbon-based assets over 12 years. I'm going to be followed by 3 prominent American climate scientists, Frank LaMere of the Winnebago Tribe of Nebraska, and Richard Miller, Creighton University Theologian. Thank you for giving us the opportunity to make our case for this proposal.

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

Thank you, and we'll proceed to the next speaker please.

Michael Mann

Chairman Buffett, Board Members and shareholders. My name is Michael Mann. I'm a professor at Penn State University and a climate scientist. And a scientist who spends much of my time communicating the reality and threat of climate change, it's an honor to have this opportunity to speak to you today.

Warren Buffett, known as the wizard of Omaha, is an aspiration to many. A symbol of the value of work ethic, self-made success and a great reward that comes with foresight. Now foresight means recognizing both opportunity and risk. And when it comes to risk, there is no better example than climate change. I recently coauthored an article in the journal, Scientific Reports, for example, demonstrating that climate change played a key role in the onslaught of unprecedented devastating droughts, floods and heatwaves in recent years, and the impacts we're seeing now are just the veritable tip of the iceberg.

Carbon emissions must be brought down dramatically within the next few years if we are to avert the worst impacts of climate change. Mr. Buffett coined the term Noah's Law (sic) [The Noah Rule] in his 2015 shareholder letter to describe the risk posed by climate change stating, if there is only a 1% chance the planet is heading toward a truly major disaster and delay means passing a point of no return inaction now is foolhardy.

Well, I couldn't agree more. And the science tells us that we are heading toward disaster in the absence of substantial reductions in greenhouse gas emissions. Board Member, Bill Gates demonstrated bold leadership a year ago when the Bill and Melinda Gates Foundation announced it was divesting off fossil fuel holdings. Were Mr. Buffett to follow suit, it would send a profound message to the rest of the global business community, a message that we can both mitigate risk and seize opportunity in the form of massive growth in clean energy technology by tackling this problem now head on before it's too late.

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

Thank you. And I believe there's another speaker, maybe two. If you'll identify yourself, please?

Richard Somerville

My name is Richard Somerville, I'm a climate scientist and a professor at the University of California, San Diego. Chairman Buffett, Board and shareholders, the world is warming. It is due to human activities, it is getting worse. The observational evidence is overwhelming. All the warmest years globally are recent years. We see the weather changing. We see more severe floods and droughts, sea level rises accelerating, ice sheets and glaciers are shrinking worldwide.

Climate change will become more and more serious unless emissions of heat-trapping gases and particles are quickly and drastically reduced. The biggest unknown about future climate is human behavior. Everything depends on what humanity does now. We have our hands on the thermostat that controls the climate of our children and grandchildren. In 2015, the nations of the world agreed in Paris on how much warming can safely be allowed. The Paris target was informed by science and the science shows that to meet the target, emissions need to be reduced drastically and quickly. We cannot just muddle through. Dithering And procrastinating lead to catastrophe.

Alleviating the disruption of climate change is cheap compared to coping with the damage of unmitigated climate change will cause. One known example, doing nothing about climate change means that sea level will become so high that coastal cities must eventually be abandoned. We caused this problem, we can solve it. And polls show that most Americans want strong actions to limit climate change. The forces driving clean energy are powerful. The market is turning against fossil fuels. The prices of solar and wind energy are dropping. They can already compete without subsidies. Vehicle and electrification is happening fast.

Clean energy provides jobs and economic growth. Progress and prosperity do not require emitting heat-trapping gases. Berkshire Hathaway and Warren Buffett are rightly admired and respected worldwide. Helping the world confront climate change should be an important part of their legacy. We owe it to our children and grandchildren.

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

Thank you. I believe there's one more speaker.

David Titley

Sir, I am David Titley, retired Rear Admiral, former Oceanographer of the Navy, and now a professor of practice at Penn State. I've been a shareholder of Berkshire Hathaway since December 2000. Thank you, sir, for your leadership of this enterprise. When I was stationed at the Pentagon, I had the privilege of working directly for the Pentagon's foremost strategic planner, Mr. Andrew Marshall. He taught me how to think about risk, and especially risks that may seem distant or low probability, but one with very high impacts, such as weapons of mass destruction.

Climate change is a fat-tailed emerging risk. It's really a risk to people, to us. And when this risk is not managed, we have a security problem. One example would be Syria. Climate is one of the links in a long chain of events that led to that tragic outcome. Nonclimate events, such as over 1 million refugees pouring into Syrian cities from the Iraq war stressed Syrian governance. Then about a decade ago, an exceptionally intense drought and heat spell linked with high confidence to a changing climate, devastated Syrian agriculture. Now you have millions of desperate people with nothing and a breeding ground for extremists. Syria is an example of why in the security community, we say that climate change accelerates the risks of instability. It can make bad places worse, a lot worse.

Senior military officers know you must address risks and take precautions while you can before it's too late. The U.S. Defense Department understands the risks of climate change and has being working quietly to adapt to the changing climate for years. Winston Churchill is alleged to have said, "Americans can always be counted upon to do the right thing after exhausting every other possibility." But we will prevail, and you, sir, can help. Here's my ask. What are government and business leaders doing to stabilize the climate? We should reduce rather than accept the risks of unchecked climate change. Because the ice doesn't care which party controls the White House or the Congress, it just melts.

Frank LaMere

I am Frank LaMere, a Bear clan of the Winnebago tribe of Nebraska. It was the indigenous people of this continent who first consecrated the ground on which we live and grow, who offered up prayers and petitions asking that we be allowed to live and to provide a way for the generations to come in exchange for the blessings given by the Creator, our forebearers agreed to be good stewards of the land.

The stewardship of our Mother Earth who provides for us has now changed, but the covenant remains the same, let there be no mistake about that. If we continue to disrespect our Earth mother, those things given us, bountiful harvest, protection for the elements and good clean water will surely be taken from us. Our elders speak of this, it has been foretold. On Christmas Eve, my son came from Standing Rock to visit us for one hour. His mother and I worried about him. How is it there? Why did you go? I asked. He said it is dangerous, Dad, but someone has to protect our water. I nodded and said [Foreign Language] that is good.

He is a water protector. I stand on his shoulders. [Foreign Language], the protectors proclaimed, water is life. Bearing that in mind, I am told that this waterway flowing south from Standing Rock and passing just a short walk from here would be fouled by any kind of breach in the Dakota Access Pipeline. My sense and my years tells me that this will happen. Millions would be poisoned. I'm further told that this collective body holds a 15% interest in oil companies that is a 25% shareholder in the Dakota Access Pipeline.

I would ask that you walk away from that investment, stand with Mother Earth today. I'm a Winnebago Indian. The Missouri River brought us here when we had no place to go. We stand with our Mother Earth now as she stood with us. Think about that. [Foreign Language], water is life. [Foreign Language].

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

Thank you.

Richard Miller

Dear Chairman Buffett, Board Members and shareholders. I am Richard Miller, I'm an Associate Professor of Philosophical Theology and Sustainability Studies at Creighton University. I write and teach on ethical issues raised by the climate crisis.

As a rationale for voting no on the divestment resolution, the board maintained that Berkshire should not limit its universe of potential investments based upon complex, social and moral issues, and that following state and federal laws was sufficient to meet your obligations. There is not only an overwhelming consensus in the scientific community about the reality and dangers of climate change, but there is also an overwhelming consensus among all major ethical theories that one is not morally justified to use increased profit as a rationale for doing harm to others.

By continuing to invest in, and thus promote, the extracting processing and burning of fossil fuels, Berkshire is doing harm to people around the world and creating conditions that will threaten future generations. While one is not morally justified to use increased profits as a rationale for doing harm to others, one cannot also opt out of ethical considerations by appealing to moral complexity.

When you're doing harm to others, especially at this scale, there is no neutral space. Nor can you simply appeal to the fact that Berkshire is following state and federal laws when those laws are themselves unethical, and that they allow the United States to violate the human rights of people around the world and set in motion catastrophic future for young people.

The consensus among ethical theories will in due time become self-evident to the average person analogous to the way slavery as an evil is self-evident today. Indeed, the recognition of the immorality of investing in fossil fuels is rapidly gaining ground as more and more institutions divest their fossil fuel holdings. Mr. Buffett, you're standing on an ethical house of cards and it's only a matter of time before it comes tumbling down. Like the thousands gathered here and the millions on live stream, I admire your considerable achievements, but I'm afraid that if you do not change course very soon, history will not judge you kindly.

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

Okay, thank you. The motion is now ready to be acted upon. Is there any shareholders voting in person? They should now mark their ballots on the motion and deliver their ballots in one of the meeting officials in the aisles. Ms. Amick, when you're ready, you may give your report.

Rebecca K. Amick
Director of Internal Auditing

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Friday afternoon, casts 7,784 votes for the motion and 594,044 votes against the motion. As the number of votes against the motion exceeds the majority of the number of votes of all Class A and Class B shares properly cast on the matter as well as all votes outstanding, the motion has failed. The certification required by Delaware law of the precise count of the votes will be given to the Secretary to be placed with the minutes of this meeting.

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

Thank you, Ms. Amick. The proposal fails, and, Mr. Scott, do you have a motion?

Walter Scott
Director

I move the meeting to be adjourned.

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

Is there a second?

Unknown Attendee

I second the motion.

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

The motion to adjourn has now been made and seconded. We will vote by voice. Any discussion? If not, all in favors 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 is adjourned. Thank you all for coming and come again next year.