BUFFETT FAQ

A compendium of Q&A sessions with Warren Buffett.

Please note that Warren Buffett and CNBC have now launched a very thorough and fantastic resource of Berkshire meeting videos and transcripts that makes this site somewhat obsolete at http://buffett.cnbc.com. I suggest visiting there

Sections

Investing Approach

43. Why do you think that despite making your methods publicly available, that relatively few people have been able to emulate your success?
44. What have been your best investments ever?
45. Could you give us your definition of stock market risk?
46. How much and how does risk factor into your investment decisions? Would you invest in emerging markets?
47. What do you think of setting an asset allocation?
48. How often do you review each position in your portfolio?
49. What are your expectations for future returns on stocks?
50. Do you expect the stock market premium to continue to be 6.5% over bonds?
51. You have espoused a constant ROE on the stock market of about 13%, over time. Do you think that such an expectation is reasonable if you factor into equity and ROE the effect of stock options granted to managements? When option programs are present in a company, what do you think is a realistic way of valuing them on a cash basis?
52. Do you think investors expect too much?
53. What's your investment hurdle rate?
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55. Investors eventually repeat their mistakes. How can you prevent this--through fast growth or safety?
56. Why do large caps outperform small caps?
57. What is the definition of Value vs. Growth stocks?
58. From the partnership letters in 1964, you had a strategy called 'generals relatively undervalued.' We have recently begun to implement a technique where we buy something at 12x, when comps sell at 20x. Comps go to 10x. Is this pair trading?
59. Importance of filtering out the noise?
60. What is the benefit of being an out-of-towner as opposed to being on Wall Street?
61. There is always mention that some of your success could be attributed to not buying in to the Wall Street mania b/c you are in Omaha—what importance do you give to balance as it pertains to work and life and what do you do to maintain your appropriate balance?
62. There are a record number of 'value' investors here this year. Are there fewer $100 bills? Should I go to run a

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Accounting, Corporate Finance, & Investing

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Foreign Investments

171. Investing in Russia?
172. Investing in Africa?
173. May I ask you your reasons for coming to Germany?
174. Are you concerned with the effects of foreign economies and their weak currencies? These have played a role in Coca-Cola's profitability recently - and Coke is trading at P/E multiple of 75. (1999)
175. Do you foresee Berkshire buying any businesses in India or China in the near future?
176. Please talk about Greece, the future of the Euro and fiscal discipline in the world. Greece and other countries are clearly in trouble and BRK has investments in Europe. How is BRK positioned for currency failures? What is your advice to investors regarding the future of the Euro?
177. What is most important thing you learn from China?
178. How will Buffett invest in China in the future? What will happen to the purchasing power of China's large holdings in U.S. Treasuries?
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180. What are your thoughts about Japan?
181. Does the Japanese economy affect your outlook?

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182. Is the individual investor even capable of assessing the riskiness of securities given the large number of institutions/hedge funds in the market?
183. What do you think about all the money flowing into private equity and hedge funds? And do you see the future of buying businesses changing based on the considerable increase in private equity activity?
184. What do you think about how most money is managed?
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186. Comments on the mutual fund scandal? (2004)
187. Why don't you start a mutual fund?
188. Opinion of money management as a job to aspire to?
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190. What effect does large institutional ownership have on stock price volatility?

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Industries

191. Do you invest based on trends or sectors?
192. What do you think about the utility industry?
193. What do you think of utilities?
194. In the domestic soft drink model, is it winner take all, or is there room for three competitors?
195. What do you think of the airline industry?
196. What do you think of the banking business model?
197. You've recently invested in Goldman Sachs and GE. Is the financial sector a good buy right now?
198. Opinion on the gambling industry?
199. Opinion on the healthcare industry and its costs?
200. Berkshire has invested in several insurance companies, would you go into the health insurance business?
201. Have you ever considered concrete as an understandable business for investment purposes?
202. What do you think of the telecoms industry?
203. Your opinion on the auto industry?
204. What's your view of the newspaper industry? versus other media?
205. What are your views on the railroad industry?
206. When do you expect to see a return on investment in wind farms and other alternative energy sources?
207. What industry will be the next growth driver in the 21st century and what do you see that supports that?

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Specific Businesses

208. What was your thinking behind the purchase of Berkshire Hathaway?
209. What is your analysis of Coca-Cola?
210. Is it really a good idea to buy stocks in unhealthy products? e.g. Coca-Cola
211. How do you distinguish the Cokes of the world from the Proctor & Gambles of this world?
212. Opinion on Coke and Gillette? (2002)
213. Coke and Gillette are off something like 30% from their highs. Do you still consider them exciting businesses?

239. Swiss Re - I'd like to know about its float and risks. How can you be comfortable with the situation?
240. Goldman Sachs - Every year you use clip from Solomon Crisis where you warned Solomon's employees that you will be ruthless if reputation if the firm stained. Clearly GS has lost reputation. What is your reaction to the lawsuit, its affect on your GS investment, and what advice you have now for GS based on your experience at Solomon?
241. On Goldman, if Lloyd Blankfein had to leave, who would you like to see run GS, were you made aware of the Wells notice, was it material, and would you have disclosed it? Have you been contacted regarding Galleon investigation?
242. BNSF deal. You have discussed the certainty of allowable returns in the industry. How are these calculated?
243. Moody's had potential conflicts of interest. Why do you retain Moody's in Berkshire's portfolio? Why didn't you use your influence to address Moody's perceived problems?
244. The tobacco industry has been under fire recently for its unhealthy products. Does this potential exist for Berkshire Hathaway holdings of Coca Cola, Dairy Queen and See's Candies? Is there a potential risk of loss of intrinsic value of these companies due to the current health concerns?
245. Wells Fargo was a good deal at $9 per share, but AIG, the Irish banks, Fannie Mae, and Washington Mutual got there, and weren't. How do you know the difference?
246. Wells Fargo reportedly wanted to decline TARP funds, and its Chairman, Dick Kovacevich, referred to the TARP as an "asinine" government program. Do you agree with the Wells' chairman, Charlie? And Warren, do you agree with Charlie?
247. What are the economic characteristics that make Kraft a good business?
248. Kraft, how would you grade Kraft board and compensation. CEO's $23m?
249. Could you give some specific numbers that relate to Coca Cola, Executive Jet, and some of the other acquisitions?

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The Market

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Technology

Would you consider investing in the telecommunications industry this way? (1999)

342. Can you comment on how technological advances affect us financially?
343. Why don't you use Bill Gates to invest in tech stocks?
344. Won’t Microsoft be doing software development ten years from now, just like Coke will be selling soda? Doesn’t that make it a candidate for investment?

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Education

345. What is your opinion of the importance of technology in business education today?
346. Could you comment on the state of financial literacy? Is there anything that could be added to educational curricula to improve it? What should future generations know?
347. What can be done to educate children of financial management, and prevent future financial mayhem?
348. Do you think an MBA is an important degree for students to have today?
349. What do you remember about your education at the University of Nebraska?
350. You began you university education at another institution, what are you thoughts on the education you received at the University of Nebraska?
351. What's the one thing that your MBA didn't prepare you for when you got out into the real world?

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Personal

352. How would you define your character? And what portion of your character do you believe contributed the most to your success?
353. After all your accomplishments, what legacy do you want to leave behind?
354. What led you to develop your values and goals at an early age?
355. Are you a goal oriented person? When you were in college did you set goals for yourself?
356. Your goals were financial in college?

357. Who are your heroes?
358. What goals do you set for yourself today; do you have goals you still want to accomplish?
359. How do you spend your day?
360. What do you read?
361. How do you define happiness and what about your life makes you most happy?
362. If you could have lunch with one person you have never met, who would it be and why?
363. How do you stay so down to earth and humble? Are there specific people or lessons you have learned throughout your life that enable you to maintain this outlook?
364. What are some of your biggest mistakes or regrets?
365. How do you think differently today than you did twenty years ago? Where do you expect to see the greatest differences in 2030?
366. Why are you frugal?
367. What would you do to live a happier life if you could live over again?
368. What keeps you up at night?
369. What do you think were the major qualities that you have that distinguish you from the majority?
370. What was your reasoning behind your huge contribution to the Bill and Melinda Gates foundation?
371. If you could come back again, would you want to be Warren Buffett?
372. What's your view of inheritances?
373. What feedback mechanisms do you have in place
374. Your friendship with Charlie?
375. Why don't you charge a percentage management fee to Berkshire, given that you earned 25% of the profits above 6% each year when he ran the Buffett Partnership. Is it because you believes, as you've said before, that "it's better to give them to receive"?
376. Who are your current role models?
377. What's the motivation behind giving your fortune away? your philanthropy?
378. Would you rather have dinner with John Adams or Ben Franklin?
379. Why do you support Planned Parenthood?
380. What is the best question you've ever been asked?
381. Has there been any question that you haven’t been able to get a comfortable answer to that also can’t go in the

Advice

397. What advice would you give the average person in the U.S.?
398. What general advice would you give?
399. What graduate school would you recommend and whom would you recommend to study with in the area of investments?
400. What's the best way to prepare for the future?
401. Importance of maths? Why does math reflect reality?
402. Are there any up-and-coming role models we should study?
403. Can you comment on the student visits to Berkshire? and more widely on investment education?
404. What should I do with my life?
405. What advice would you give to the quieter, introverted population, in order to raise their visibility and gain the recognition they deserve?
406. I'm 12 years old. There are a lot of things they don't teach you in school. What things should I be looking into?
407. I have four children. Can you give them advice about keeping up with the Joneses?
408. What exactly does it mean to be financially successful? How can one properly prepare themselves for the economic future?
409. I started babysitting and I am really happy to get the money and put it in my saving's account but I want a raise. How should I ask?
410. How can I figure out what to be in life if there are so many choices?
411. My mom says I should save my money, but I want to buy a video game. What do you think?
412. I teach at a community college in Florida, teaching students to invest in themselves. Financial independence and freedom. Slow and steady wins the race. Law of reciprocity. Etc, etc, etc. What else should I be doing?
413. What advice do you give to young entrepreneurs? I am starting a business, and I want it to be successful. Aristotle, when asked definition of wealth, said it is he who spends less than he earns.
414. What's a good thing to buy and than sell for a profit? For example candy or something in that nature?
415. I want to start my own business, what should I do? A car wash?

416. What are the best ways for a 10-year-old to earn money?
417. Partly because of marrying well, I am able to manage the money of my husband and myself full time. I wanted to ask a diversification question. Each of us has a traditional and a Roth IRA. Should the assets in those accounts be separated, or managed as a single entity?
418. Imagine you are investing with small sums of money at 30 years old, with your first $1 million. Your savings can cover expenses for 18 months. You are not a full-time investor. What advice do you have, please be as specific as possible. What asset classes and what percents?

The Big Picture

419. What do you believe are the greatest successes of capitalism?
420. What do you see as the shortcomings of capitalism?
421. How should we take care of those who are harmed by the system, like your former textile mill workers?
422. With the recent changes in the global political economy and surges in terrorist activity, some would argue that uncertainty is increasing for all types of global markets. Where do you think things are heading and how should we deal with this heightened uncertainty?
423. What kind of impact will the demographic shift (i.e. baby boomers) have on the United States?
424. Do you believe that the Federal Reserve is fostering moral hazard thereby leading to the misallocation of capital and subsequent asset bubbles? If so, what are the long term risks?
425. Could you comment on the current rise of sovereign wealth funds from theMiddle East and Asia and how they are playing an increasing role in how corporations raise capital. Is competition from these sources for the cash flows of corporations affecting your investment strategies or opportunities?
426. It seems that the worldwide trend is towards lower corporate tax rates. Do you think that the US risks becoming less competitive if it maintains its current corporate tax rate?
427. Do you feel that the might of America has changed?
428. What are the biggest challenges that this country faces?

429. What do you think about the U.S. trade deficit?
430. What level of taxation on capital gains is most conducive to the long-term economic health of this society, and is that also the fair and just rate?
431. What's your opinion of oil? peak oil?
432. The current tenuous economic situation and interest rates? Where are we going?
433. What was the impact of September 11th?
434. Could you use your clout to advocate for tort reform?
435. Views on growing income inequality?
436. Thoughts about the odds of a nuclear attack?
437. Opinion on immigration?
438. Opinion on social security?
439. Opinion on public education?
440. Views on the U.S. Current Account Deficit?
441. What do you think the likelihood is of a major credit contraction?
442. The state of Florida getting into the insurance business?
443. What's your opinion on global warming? climate change?
444. What's your opinion on politics, elections, and the political system?
445. Maybe there should be a Buffett/Munger Presidential ticket. Please name three difficult policy decisions and three perfect solutions to better the country.
446. Can volunteering help the economy? If so, then why aren't people doing it? I stick to my motto if you see something that needs doing, do it.
447. Should the U.S., and U.S. companies such as Coca-Cola, withdraw sponsorship of the Beijing Olympics because of humanitarian values?
448. Why is it that Americans do not save, and what can we do?
449. What is the future of mass transit?
450. Is there a chance the CDS [Credit Default Swap] market may eclipse subprime?
451. How do you envision a nationalized healthcare system, and how it would affect Berkshire's portfolio?
452. Would the government's stimulus spending be better spent acquiring national infrastructure, as during the Great Depression, in order to put people to work?
453. Will retail, manufacturing and service businesses still be below their 2007 levels three years from now, given

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Investing Approach

Have you ever bought a company where the numbers told you not to? How much is quantitative and how much is qualitative?

The best buys have been when the numbers almost tell you not to. Because then you feel so strongly about the product. And not just the fact you are getting a used cigar butt cheap. Then it is compelling. I owned a windmill company at one time. Windmills are cigar butts, believe me. I bought it very cheap, I bought it at a third of working capital. And we made money out of it, but there is no repetitive money to be made on it. There is a one-time profit in something like that. And it is just not the thing to be doing. I went through that phase. I bought streetcar companies and all kinds of things. In terms of the qualitative, I probably understand the qualitative the moment I get the phone call. Almost every business we have bought has taken five or ten minutes in terms of analysis. We bought two businesses this year.

General Re is a $18 billion deal. I have never been to their home office. I hope it is there. (Laughter) “There could be a few guys there saying what numbers should we send Buffett this month?” I could see them going once a month and saying we have $20 billion in the bank instead of $18 billion. I have never been there.

Before I bought Executive Jet, which is fractional ownership of jets, before I bought it, I had never been there. I bought my family a quarter interest in the program three years earlier. And I have seen the service and it seems to develop well. And I got the numbers. But if you don’t know enough to know about the business instantly, you won’t know enough in a month or in two months. You have to have sort of the background of understanding and knowing what you do or don’t understand. That is the key. It is defining your circle of competence.

Everybody has got a different circle of competence. The important thing is not how big the circle is, the important thing is the size of the circle; the important thing is staying inside the circle. And if that circle only has 30 companies in it out of 1000s on the big board, as long as you know which 30 they are, you will be OK. And you should know those businesses well enough so you don’t need to read lots of work. Now I did a lot of work in the earlier years just getting familiar with businesses and the way I would do that is use what Phil Fisher would call, the “Scuttlebutt Approach.” I would go out and talk to customers, suppliers, and maybe ex-employees in some cases. Everybody. Everytime I was interested in an industry, say it was coal, I would go around and see every coal company. I would ask every CEO, “If you could only buy stock in one coal company that was not your own, which one would it be and why? You piece those things together, you learn about the business after awhile.

Funny, you get very similar answers as long as you ask about competitors. If you had a silver bullet and you could put it through the head of one competitor, which competitor and why? You will find who the best guy is in the industry. So there are a lot of things you can learn about a business. I have done that in the past on the business I felt I could understand so I don’t have to do that anymore. The nice thing about investing is that you don’t have to learn anything new. You can do it if you want to, but if you learn Wrigley’s chewing gum forty years ago, you still understand Wrigley’s chewing gum. There are not a lot of great insights to get of the sort as you go along. So you do get a database in your head.

I had a guy, Frank Rooney, who ran Melville for many years; his father-in-law died and had owned H.H. Brown, a shoe company. And he put it up with Goldman Sachs. But he was playing golf with a friend of mine here in Florida and he mentioned it to this friend, so my friend said “Why don’t you call Warren?” He called me after the match and in five minutes I basically had a deal.

But I knew Frank, and I knew the business. I sort of knew the basic economics of the shoe business, so I could buy it. Quantitatively, I have to decide what the price is. But, you know, that is either yes or no. I don’t fool a lot around with negotiations. If they name a price that makes sense to me, I buy it. If they don’t, I was happy the day before, so I will be happy the day after without owning it.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

[back to the questions.]

What is it that really piques your interest in a stock? What tells you that it could be interesting?

We're so limited now because we can only go into very big companies. Charlie and I are probably familiar with every company in the United States--in a general way--that we can have the kind of position we would need to have [to make a difference in Berkshire Hathaway's performance]. We look for the ones where we think we know what they're going to look like in 10 years. If the price gets attractive and we know a little about the management, and we're quite sure--within a range--what they're going to look like in 10 years, we're in our area. We buy them when the prices are right, like Coca-Cola was some years back.

- *Source: BRK Annual Meeting 1998*
- *URL:*
- *Time: 1998*

back to the questions.

What is your investment process?

- In the past some things were cheap enough WB could decide in a day (this was somewhat a function of a time period where companies would sell at 2-3x earnings)
- Decisions should be obvious to onlookers. You should be able to explain why you bought something in a paragraph.
- "I don't do DCF" (WB says he does a rough approximation in his mind)
- Finding ideas is a function of cumulative knowledge over time. Something just comes along - usually an event takes place, like a good management team screwing up that creates the opportunity (WB seems to imply here that his reading isn't specifically targeted at finding ideas, but rather that ideas jump out at him as a natural consequence of vociferous reading)
- You must be patient...good ideas tend to be clustered together, and may not come at even time intervals...when you don't find anything for a while it can be irritating
- WB isn't bothered by missing something outside his circle of competence - Missing things inside the circle is nerve racking...examples include WMT, FNM

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

[When asked about the relative attractiveness of bonds, arbitrage, etc., Buffett replied:]

Charlie and I are competent to make judgments on certain things, and not other things. We try to focus on what we can understand, which is a reasonable amount.

In the summer to mid-fall of 2002, when junk bonds became very attractive, we bought a lot. But we did not make a big decision to buy junk bonds – it's just that a lot of them got really cheap.

We have an open mind – whatever we see on a given day that overcomes our resistance to take risk, we'll do. Charlie and I do not have a checklist to prioritize categories. I hope he gets a good idea, he hopes I have one and if we find one, then we move, hopefully in a big way. It has to be big.

We're recently made big investments in currencies and viatical settlements. We don't do arbitrage any more because we're too big.

[CM: We have a lot of cash because we don't like any of those fields at the moment. Trying to prioritize among things we're unlikely to do is pretty fruitless.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[Q - How do you get better at valuing companies?]

WB: Very very good question. I started out not knowing anything about valuing companies. Ben Graham taught me a way to value certain type of business, but the selection of available companies dried up. Charlie taught me about durable competitive advantage. Not how big circle of competence is, but knowing where the edges are is most important. Think about businesses in your own home town. Ask questions about the businesses. Which do you want to buy into, which are hard to compete with, talk about businesses with people. What is working, what is not? You have to ask. You would be surprised at how many companies I know nothing about. The goal is to find companies that will be around for 20 years and offer a margin of safety. You have to recognize your limitations to be successful in this business. 6-7yrs ago I looked at Korean stocks, and I could see a number of businesses that met margin of safety. I bought 20 and diversified.

CM: Obviously if you want to get good at something which is competitive, you have to think about it and practice a lot. You have to keep learning because world keeps changing and competitors keep learning. You have to go to bed wiser than you got up. As you try to master what you are trying to do – people who do that almost never fail utterly. Very few have ever failed with that approach. You may rise slowly, but you are sure to rise.

WB: When did you start valuing businesses?

CM: I never took a business class, except accounting. When I was a boy, there was a man who came to the club every day at 10:30am. I asked my dad about him – he had such a good life! My Dad said, "He gathers up and renders dead horses." I learned from that. Many businesses are sold under distress. Life is hard to get near top, and hard to hold position once attained. I think you could predict that Kiewits would win, they cared more. I would not have bet on anyone else. Half Dutch half German – and that is coming from me, I'm named Munger. I was automatically doing it – what was working and what wasn't. If you have that temperament, you will gradually learn. If you don't have that temperament, I can't help you.

WB: Avoiding the dumb things is the most important. Learn more, know limitations, avoid the dumb things. Charlie often thought about his client's business. He was incapable of thinking about a business without noticing the fundamental economics.

CM: I had a client who sold a Caterpillar dealership business for a crazy price to an oil business. The oil business had consultants and a concept and a strategy!

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

[back to the questions.]

What's your acquisition criteria? What has made you successful in this area where most others have failed?

We look for people who have a passion for their business. We frequently buy businesses the owners still manage, where they are monetizing a lifetime of work. They often don't want to sell but need to for estate planning or other reasons.

They need to have a passion because we don't have any employment contracts – because we don't think they work – we don't stand over them with whips, and they're already rich. We just try not to kill or dampen their love for their business.

We also look for three things: intelligence, energy and integrity. If you don't have the latter, then you should hope they don't have the first two either. If someone doesn't have integrity, then you want them to be dumb and lazy. (Laughter)

We look them in the eyes and ask, "Do they love the business or the money?" If someone wants to cash out, then we have a problem because we only have 16 people at Berkshire's headquarters and can't run it ourselves.

Munger: The interesting thing is how well it [our acquisition strategy/process] has worked over a great many decades, and how few people copy it. (Laughter)

We criticize it [acquisitions], but then we do it. But we have different motivations.

We've been reasonably successful in having people run their businesses with the same passion as before we bought them.

Gillette, the oil companies, etc. all went out and bought a lot of businesses and tried to run them themselves. We're under no illusions that we can do that. We think that having lots of Executive Vice Presidents, directives from headquarters, centralized Human Resources etc. can destroy the incentives of the people who've already gotten rich, and we're counting on them making us rich.

The successor to me will come from Berkshire, knows our system, has seen that it works, and will be surrounded by people who believe in it. So it's not going to be so hard to keep this train going down the tracks at 90 miles per hour.

[CM: Our success has come from the lack of oversight we've provided, and our success will continue to be from a lack of oversight. (Laughter)

But if you're going to provide minimal oversight, you have to buy carefully. It's a different model from GE's. GE's works – it's just very different from ours.]

We are a conglomerate – and we hope to become more of a conglomerate.

We're successful because of simplicity itself: We let people who play the game very well keep doing it. Our successor won't change this. The big worry is that the culture is tampered with and there's oversteering. But our board and owners won't allow this.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[BRK2006 - Update on acquistions]

Russell is in process – it'll probably be a couple of months before completion. I described the Business Wire acquisition in the annual report. I got a letter from Cathy [Baron Tamraz, CEO of Business Wire]. [Regarding the purchase of GE's Medical Protective Corporation,] I knew [GE CEO Jeff] Immelt wanted to shed some insurance assets and I suggested we'd be interested in that part of it, so we talked and made a deal.

One thing we haven't done is participate in auctions. I get books occasionally and the projections are just plain silly. Maybe that's why they don't sign them. I'd love to make a bet with the investment bankers about whether the companies achieve the earnings in the pitch books.

The calls we want to get are from people who care about their business, who for tax or family-ownership reasons want to sell to us. They're looking to change the ownership structure, not the operating personality and culture of the company they care deeply about.

The owners of Iscar are keeping 19% [I think he meant 20%]. They think [Berkshire] is the best place for their business and their people, and where they'll have the most opportunity to grow. I don't know how many stories you read about a $4 billion deal that doesn't say anything about an investment banker on either side.

[CM: The interesting thing about it to me is the mindset. With all these "helpers" running around, they talk about doing deals. We talk about welcoming partners. The guy doing deals, he wants to do a deal and then unwind it in the near future. It's totally opposite for us. We like to build lasting relationships. I think our system will work better in the long term than flipping deals.

I think there are so many of them [helpers] that they'll get in each other's way. I don't think they'll make enough money to meet their expectations, by flipping, flipping, flipping.]

By charging fees, fees, fees. [Laughter]

[CM: Warren talked to guy at an investment bank and asked how they made their money. He said, "Off the top, off the bottom, off both sides and in the middle." [Laughter]]

[A shareholder asked if he'd be interested in buying Oriental Trading Company, a direct marketer of novelties and gift items, which is based in Omaha.] I looked at Oriental Trading a few years ago. I didn't know it was for sale again. I don't know, but I suspect some private group bought it and is now selling it. We see that all the time. They invariably try to sell it quickly to a strategic buyer, which is another way of saying someone who pays too much. Anytime someone calls me and says we'd be a logical strategic buyer, I hang up the phone faster than Charlie would.

The idea that we're going to find a business to buy from a guy who's been thinking from the moment he bought only about how he's going to spruce it up and get out, is very low. It's Fund A selling to Fund B to Fund C. The irony is that the same pension fund may be invested in all three funds, so they're just paying all of the money managers to flip it to one another.

[CM: In the 1930s, there was a stretch where you could borrow more against the real estate than you could sell it for. I think that's what's going on in today's private- equity world.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

What's your acquisition strategy? How do you get deals?

We'd like to keep buying businesses like the eight we bought last year. Our first preference has always been to buy outstanding operating businesses outright. We've made money in stocks, especially in the 1970s, but the climate is not so favorable now.

There are enough businesses that meet our criteria to do two acquisitions per year on average. What we'd really like to do is a $10-15 billion acquisition, but it's hard to find one that's not being auctioned, which we don't do.

We haven't had much luck buying businesses overseas, but that's because our phone hasn't rung. We're not on the radar screen, but we're hoping this will change.

Our best source of deals is word of mouth, generally in industries we're invested in. Sort of like NetJets, where 70% of our new customers are referred by current customers.

- *Source: BRK Annual Meeting 2001 Tilson Notes*
- *URL:*
- *Time: April 2001*

It’s important to note that in this world where many businesses get dressed up and auctioned off, we occasionally hear from people who consider their business too important to auction off. We don’t participate in auctions. I can’t recall buying a business at auction, can you Charlie?

[CM: I can’t remember one.]

People who won’t put their business up for auction like a piece of meat and care about the home in which their business resides are the type of people we want to be partners with. It says something very important about how much they care about their business, their customers and their employees. We’ve acquired a number of businesses like this in the past couple of years and the crowning one is Iscar. I’m going to Israel in September to see if there are any more girls like Iscar there.

[Tilson Notes - I think the Iscar acquisition is fantastic news for three reasons:

- 1. It’s big – at $4 billion, it’s the 3rd-largest deal Buffett has ever done);
- 2. It appears to be an awesome business. According to an article in an Israeli newspaper, Iscar was valued at $800 million in 1997, so it’s increased in value by more than 6x in nine years (that’s 22.6% compounded annually); and
- 3. It’s the first business Buffett’s ever bought that is headquartered overseas. This is a huge step forward in expanding his hunting ground to the entire world for the “elephants” he’s seeking. Having lived and traveled all over the world, I know that there are many fabulous, privately held businesses like Iscar, and Berkshire is the perfect buyer for many of them.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Deal Flow?

We don't like the term "deal flow" because we don't view them [businesses we might buy] as deals. We look at deals a few times a year. In the US, we get a pretty reasonable percentage of the calls we should get. We didn't get those calls 20-40 years ago because we weren't as well known.

It feeds on itself. If we acquire companies and people say good things, we'll hear from more. We acquired one furniture company, which led to four more.

It's like a snowball. By being around 38 years, it's been a high mountain [and Berkshire is now a] big snowball and attracts a lot of snow.

Outside the US, we don't see many deals because we're not as well known.

I don't hear about one [deal] a week or even a month. But most we want to hear about, we get a good percentage of the calls. It would be a plus [if we were to see more deals] outside this country.

[CM: The general assumption is that it must be easy to sit behind a desk and people will bring in one good opportunity after another -- this was the attitude in venture capital until a few years ago. This was not the case at all for us -- we scrounged around for companies to buy. For 20 years, we didn't buy more than one or two per year.]

We didn't have the money to do many deals. When we bought National Indemnity, it was a big deal for us. We hope there's a lot of mountain left and a lot of wet snow.

[CM: It's fair to say that we were rooting around. There were no commissioned salesmen. Anytime you sit there waiting for a deal to come by, you're in a very dangerous seat.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

What sources of investment ideas are available today?

First, you need two piles. You have to segregate businesses you can understand and reasonably predict from those you don't understand and can't reasonably predict. An example is chewing gum versus software. You also have to recognize what you can and cannot know. Put everything you can't understand or that is difficult to predict in one pile. That is the too-hard pile. Once you know the other pile, then it's important to read a lot, learn about the industries, get background information, etc. on the companies in those piles. Read a lot of 10Ks and Qs, etc. Read about the competitors. I don't want to know the price of the stock prior to my analysis. I want to do the work and estimate a value for the stock and then compare that to the current offering price. If I know the price in advance it may influence my analysis. We're getting ready to make a $5 billion investment and this was the process I used.

- *Source: Univ. of Kansas MBA Student Meeting*
- *URL: http://boards.fool.com/more-buffett-notes-23675392.aspx?sort=whole#23675392*
- *Time: Dec 2005*

back to the questions.

Do you have any investing tips?

- B: Start with the A's and examine all of them
- CM: Dancing in and out of your favorite companies is not a good idea.
- B: Have to make two decisions right, when to buy and when to sell. Also have to pay taxes along the way.
- B: Investing is about valuing businesses. Encourage us to look at inefficiently priced businesses.
- B: Built snowball on top of a very long hill, start very young and live a long time. Keep expenses low.
- B: Find out what you know and don't know. Think for yourself
- CM: First struggle is to get to $100,000. Underspend income grossly to get there quicker.
- B: Valuation is an art
- B: Get a strong enough moat so management less of a factor
- B: Standard Deviation doesn't tell you anything
- B: Better investor if look back at decisions you make and determine if you make the right decision
- B: Pick out five to ten companies in which you understand their products, get annual reports, get every news piece on it. Ask what do I not know that I need to know. Talk to competitors and employees. Essentially be a reporter, ask questions like: If you had a silver bullet and could put it into a competitor who would it be and why. In the end you want to write the story, XYZ is worth this much because...
- Cm: The question why is the most important of all.

- *Source: BRK Meeting 1999*
- *URL:*
- *Time: 1999*

[Munger: "To some extent, stocks are like Rembrandts. They sell based on what they've sold in the past. Bonds are much more rational. No-one thinks a bond's value will soar to the moon."

"Imagine if every pension fund in America bought Rembrandts. Their value would go up and they would create their own constituency."]

- *Source: BRK Meeting 2001 Tilson Notes*
- *URL:*
- *Time: April 2001*

back to the questions.

How do you build your investment knowledge?

We read a lot: daily publications, annual reports, 10Ks, 10Qs, business magazines, etc.

Fortunately, the investment business is one where knowledge accumulates and builds into a knowledge base that's useful. There's a lot to absorb over time. 40-50 years ago, I visited a lot of companies, but haven't done this in a long, long time.

[CM: The more basic knowledge you have, the less new knowledge you have to get. The guy who plays chess blindfolded [a chess master comes to Omaha during Berkshire's annual meeting weekend and, in an exhibition, plays multiple players blindfolded] -- he has a knowledge of the board, which allows him to do this.

I'd hate to give up The Wall Street Journal.]

You'd also hate to give up the Buffalo News [which Berkshire owns]. [Laughter.] You want to read a lot of financial publications. The New York Times has a much better business section than it had 25 years ago. Read Fortune.

I don't read any analyst reports. If I read one, it's because the funny pages weren't available. I don't know why anyone does it.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Is there an organizational model that allows you to deal with all the information?

The beauty of valuing large companies is that it is cumulative. If you started doing it 40 or so years ago, you've really got a working knowledge of an awful lot of businesses. There aren't that many, to start with. What are there, 75 or so important industries? You get to understand how they all operate, and you don't have to start over again every day, and you don't have to consult a computer or anything like that. So, it has the advantage of the accumulation of useful information over time. Why did we decide to buy Coca-Cola in 1988? Well, it may have been because of a couple of small, incremental bits of information, but that came into a mass that had been accumulated over decades. That's why we like businesses that don't change very much.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

Do you have advice for the individual investor to help them narrow the stock universe?

They ought to think about what he or she understands. Let's just say they were going to put their whole family's net worth in a single business. Would that be a business they would consider? Or would they say, "Gee, I don't know enough about that business to go into it?" If so, they should go on to something else. It's buying a piece of a business. If they were going to buy into a local service station or convenience store, what would they think about? They would think about the competition, the competitive position both of the industry and the specific location, the person they have running it and all that. There are all kinds of businesses that Charlie and I don't understand, but that doesn't cause us to stay up at night. It just means we go on to the next one, and that's what the individual investor should do.

So if they're walking through the mall and they see a store they like, or if they happen to like Nike shoes for example, *these would be great places to start? Instead of doing a computer screen and narrowing it down?*

A computer screen doesn't tell you anything. It might tell you about P/Es or something like that, but in the end you have to understand the business. If there are certain businesses in that mall they think they understand and they're public companies, and they can learn more and more about them.... We used to talk to competitors. To understand Coca-Cola, I have to understand Pepsi, RC, Dr. Pepper.

[CM: And Cott. Cott is the one you have to understand more than anything else. [Note: Cott is a Canadian company specializing on low-priced, private-label soft drinks.]]

- *Source: BRK Annual Meeting 1998*
- *URL:*
- *Time: 1998*

back to the questions.

What advice would you give to new investors?

I think you should read everything you can. In my case, by the age of 10, I'd read every book in the Omaha public library about investing, some twice. You need to fill your mind with various competing thoughts and decide which make sense. Then you have to jump in the water – take a small amount of money and do it yourself. Investing on paper is like reading a romance novel vs. doing something else. [Laughter] You'll soon find out whether you like it. The earlier you start, the better.

At age 19, I read a book [The Intelligent Investor] and what I'm doing today, at age 76, is running things through the same thought process I learned from the book I read at 19.

I remain big on reading everything in sight. And when you get the opportunity to meet someone like Lorimer Davidson, as I did, jump at it. I probably learned more in that four hours than in almost any course in college or business school.

Munger: Sandy Gottesman, a Berkshire director, runs a large, successful investment firm. Notice his employment practices. When he interviews someone, he asks: "What do you own and why do you own it?" If you're not interested enough to own something, then he'd tell you to find something else to do.

Buffett: Charlie and I have made money in a lot of different ways, some of which we didn't anticipate 30-40 years ago. You can't have a defined roadmap, but you can have a reservoir of thinking, looking at markets in different places, different securities, etc. The key is that we knew what we didn't know. We just kept looking. We knew during the Long Term Capital Management crisis that there would be a lot of opportunities, so we just had to read and think eight to ten hours a day. We needed a reservoir of experience. We won't spot every one, though – we've missed all kinds of things.

But you need something in the way you're programmed so you don't lose a lot of money. Our best ideas haven't done better than others' best ideas, but we've lost less. We've never gone two steps forward and then one step back – maybe just a fraction of a step back.

Munger: And of course the place to look when you're young is the inefficient markets. You shouldn't be trying to guess if one drug company is going to have a better pipeline than another.

Buffett: You should do well in games with few other players. The RTC [Resolution Trust Corporation] was a great example of a chance to make a lot of money. Here was a seller [government bureaucrats] with hundreds of billions of dollars of real estate and no money in the game, who wanted to wrap up quickly, while many buyers had no money and had been burned.

There won't be any scarcity of opportunity in your life, although there will be times when you feel that way.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

- Don't worry too much about your mistakes
- Don't learn too much from your mistakes:
    - Don't become Mark Twain's cat that never sat again on a stove after being burned
    - BUT...never be willing to play a "fatal" game

- Don’t confuse social progress with the chance to make money – look at airlines and autos for examples
- Law degree is not essential, but good if you think it will help in your specific career
- Learning to think like a lawyer is a valuable trait
- Allocate even more of your day to reading than he does
- Read lots of K’s and Q’s – there are no good substitutes for these - Read every page
- Ask business managers the following question: “If you could buy the stock of one of your competitors, which one would you buy? If you could short, which one would you short?”
- Always read source (primary) data rather than secondary data
- If you are interested in one company, get reports for competitors. “You must act like you are actually going into that business, and if you were, you’d want to know what your competitors were doing.”

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

[Re: Ongoing Learning]

I haven’t been continually learning the basic principles [of sound investing], which are still Ben Graham’s. They were affected in a significant way by Charlie and Phil Fisher in terms of looking at better businesses. And I’ve learned more about how businesses operate over time.

You need an intellectual framework, which you can get mostly from The Intelligent Investor. Then, think about businesses you can get your mind around if you really work at it. Then, you will do well if you have the right temperament.

[CM: I’ve watched Warren for decades. Warren has learned a lot. He can pooh pooh investing in PetroChina, but he’s learned, which has allowed him to [expand his circle of competence so he could invest in something like PetroChina.

If you don’t keep learning, other people will pass you by.

Temperament alone won’t do it – you need a lot of curiosity for a long, long time.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

It's hard for individual investors to successfully pick stocks or time the market. The best investment you can make is in your own abilities. Anything you can do to develop your own abilities or business is likely to be more productive than investing in foreign currencies.

If you own your own business in America [and you run it well, you'll do OK].

When I was seven years old, I first took an interest in stocks. My dad was in the business, so I'd go with him to the office and I saw interesting things. [When I was a little older,] I went to the library and read every book on markets and investing.

When I was 11, I bought my first stock – three shares. I was following charts. When I was 19, I read The Intelligent Investor and it changed my whole framework.

My advice is to read a lot. There are no secrets in the business that only the priesthood knows. It's all right there.

It requires qualities of temperament way more than qualities of intellect.

Once you have a 125 IQ, much more doesn't matter. Look for opportunities that fit your framework. Try to learn every day, but you can't act every day. It's important to enjoy the game, just as it is to enjoy bridge or baseball [if you're going to play those games seriously].

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

Ben Graham said you're neither right nor wrong if you're investing with the crowd – you're right if your facts and reasoning are right. Once you have the facts, *you* have to think about what they mean. You don't take a survey.

You should focus on what's important and knowable. There are many things that are important but now knowable, like [whether there will be] a nuclear attack tomorrow. You can't focus on those.

As Ben Graham said in chapter 8 of The Intelligent Investor: The market is there to serve you, not instruct you. If it does something silly, it gives you a chance to do something. It just sets prices. If it doesn't give you an opportunity, go play bridge and come back the next day. And the nice thing is that the prices will be different.

During the Long-Term Capital Management crisis, we were getting calls on Sunday from people. By the way, you can make a lot of money on calls on Sunday – that means things are really screwed up. Just make sure you're the callee and not the caller.

At that time, there was [an unprecedented] 30 basis point spread between on- versus off-the-run 30-year Treasuries. All you have to do [in such situations] is make sure you can play out your hand under all circumstances. If you can and you have the right facts – and you let the market serve rather than instruct you – you can't miss.

Munger: I'd say some of you probably can miss. [Laughter]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

Advice for getting into investing?

I love the treasure hunt. Learn as much as you can. Just jump right into the pool.

- *Source: BRK Q&A by John Reuwer*
- *URL:*
- *Time: Nov 19th 2009*

back to the questions.

Where is a good place for new investors to invest right now?

That□’s very difficult - we don□’t have one-line advice on that. Maybe for a small investor, continuous investment in index funds might work - but not for us. I like the businesses we□’re in, so I wouldn□’t be giving up any of my businesses.

Investors have to remember: corporate profits are going up, but stocks are going up faster. How can that continue indefinitely? Investors can only earn what companies themselves can earn; the government or the markets themselves don□’t kick anything in. How can you get anything more out of a farm than what it grows?

There□’s nothing magical added by the stock market to corporate returns. It just doesn□’t create more earnings to pay out to investors. If you trace out the mathematics of the market□’s logic, you begin to see the limits to the logic.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

We think we’re in a pretty good group of businesses for the world we face. We don’t know which will be super-winners, but we think a significant number will do okay. We don’t buy businesses with much thought of world trends, but we do think about businesses subject to foreign competition, with high labor content and a product that can be shipped in.

I bought into an airline [US Air] with high seat-mile costs of 12 cents. It was protected, but that was before Southwest showed up with 8-cent costs.

The variables you name don’t bother us. We have good businesses, deal from strength, always have a loaded gun and have the right managers and people and an owner-oriented culture.

Munger: We learned about foreign labor competition in our shoe business. It reminds me of Will Rogers, who said he didn’t think man should have to learn easy lessons in such a hard fashion. You should be able to learn not to pee on an electrified fence without actually trying it. [Laughter]

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*

- *Time: 2007*

back to the questions.

What advice would you give to non-professional investors?

- If you like spending 6-8 hours per week working on investments, do it
- If you don't, then dollar cost average into index funds. This accomplishes diversification across assets and time, two very important things.
- "There is nothing wrong with a 'know nothing' investor who realizes it. The problem is when you are a 'know nothing' investor but you think you know something." [NOTE: this is analogous to the concept of 'metaknowledge' that Mauboussin talked about...there's also a Confucius quote on this]

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

back to the questions.

Are investors more or less knowledgeable today compared to ten years ago?

There is no doubt that there are far more "investment professionals" and way more IQ in the field, as it didn't use to look that promising. Investment data are available more conveniently and faster today. But the behavior of investors will not be more intelligent than in the past, despite all this. How people react will not change – their psychological makeup stays constant. You need to divorce your mind from the crowd. The herd mentality causes all these IQ's to become paralyzed. I don't think investors are now acting more intelligently, despite the intelligence. Smart doesn't always equal rational. To be a successful investor you must divorce yourself from the fears and greed of the people around you, although it is almost impossible.

Do you think Ponzi was crazy? The tech and telecom madness that existed just 6 years ago is right up there with the craziest mania's that have ever happened. Huge training in capital management didn't help.

Take Long Term Capital Management. They had 100's of millions of their own money, and had all of that experience. The list included Nobel Prize winners. They probably had the highest IQ of any 100 people working together in the country, yet the place still blew up. It went to zero in a matter of days. How can people who are rich and no longer need more money do such foolish things?

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Your thoughts on index funds?

Just pick a broad index like the S&P 500. Don't put your money in all at once; do it over a period of time. I recommend John Bogle's books -- any investor in funds should read them. They have all you need to know."

[CM: One could imagine a period like Japan 13 years ago, however, in which indexing over time wouldn't work.]

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

[When asked whether one should buy Berkshire, invest in an index fund, or hire a broker, Buffett replied:]

We never recommend buying or selling Berkshire. Among the various propositions offered to you, if you invested in a very low cost index fund – where you don’t put the money in at one time, but average in over 10 years –you’ll do better than 90% of people who start investing at the same time.

[CM: It’s hard to sit here at this annual meeting, surrounded by smart, honorable stock brokers who do well for their clients, and criticize them. But stock brokers, in toto, will do so poorly that the index fund will do better.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[back to the questions.]

If you were today 20-something years old would you primarily be searching for: a) Situations reminiscent of 1957 – akin to Daehan Flour Mills, or b) Situations reminiscent of 1987 – akin to Moody’s Corporation?

Either is fine. a) is better for small sums. b) is better for large sums

[Mr. Buffett, on June 23, 1999 you shared with Business Week:

If I was running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that.]

[At a talk to Columbia students in 1993 you shared:

When I got out of Columbia the first place I went to work was a five-person brokerage firm with operations in Omaha. It subscribed to Moody's industrial manual, banks and finance manual and public utilities manual. I went through all those page by page.

I found a little company called Genesee Valley Gas near Rochester . It had 22,000 shares out. It was a public utility that was earning about $5 per share, and the nice thing about it was you could buy it at $5 per share.

I found Western Insurance in Fort Scott, Kansas. The price range in Moody's financial manual...was $12-$20. Earnings were $16 a share. I ran an ad in the Fort Scott paper to buy that stock.

I found the Union Street Railway, in New Bedford, a bus company. At that time it was selling at about $45 and, as I remember, had $120 a share in cash and no liabilities.]

[Along similar lines, in late 2005 I understand you explained to a group of Harvard students the following:

Citicorp sent a manual on Korean stocks. Within 5 or 6 hours, twenty stocks selling at 2 or 3x earnings with strong balance sheets were identified. Korea rebuilt itself in a big way post 1998. Companies overbuilt their balance sheets – including Daehan Flour Mill with 15,000 won/year earning power and selling at “2 and change” times earnings. The strategy was to buy the securities of twenty companies thereby spreading the risk that some of the companies will be run by crooks. $100 million was quickly put to work.]

[The “1987” Fisher Approach -The following excerpts from an article written by Carol Loomis published on April 11, 1988 in Fortune provide interesting clarity on the modus-operandi of Berkshire circa 1987:

Unusual Profitability (High ROE with Low Debt; i.e. high ROIC) - ...But in his 1987 annual report, Buffett the businessman comes out of the closet to point out just how good these enterprises and their managers are. Had the Sainted Seven operated as a single business in 1987, he says, they would have employed $175 million in equity capital, paid only a net $2 million in interest, and earned, after taxes, $100 million. That's a return on equity of 57%, and it is exceptional. As Buffett says, "You'll seldom see such a percentage anywhere, let alone at large, diversified companies with nominal leverage."

Unusual Growth (Opportunities for Reinvestment of Retained Earnings) - ...Some folks of the right sort, by the name of Heldman, read that ad and brought him their uniform business, Fechheimer, in 1986. The business had only about $6 million in profits, which is an operation smaller than Buffett thinks ideal. ...A few hundred miles away at Fechheimer (...1987 sales: $75 million)

Paying for Quality - ...By 1972, Blue Chip Stamps, a Berkshire affiliate that has since been merged into the parent, was paying three times book value to buy See's Candies, and the good-business era was launched. "I have *been shaped tremendously by Charlie," says Buffett. "Boy, if I had listened only to Ben, would I ever be a lot poorer.]*

- *Source: Shai Dardashti Hand-delivered Letter*
- *URL:*
- *Time: January 2007*

back to the questions.

What's your opinion of cigar butts vs quality businesses?

[CM: If See's Candy had asked $100,000 more [in the purchase price; Buffett chimed in, "$10,000 more"], Warren and I would have walked -- that's how dumb we were.]

[Ira Marshall said you guys are crazy -- there are some things you should pay up for, like quality businesses and people. You are underestimating quality. We listened to the criticism and changed our mind. This is a good lesson for anyone: the ability to take criticism constructively and learn from it. If you take the indirect lessons we learned from See's, you could say Berkshire was built on constructive criticism. Now we don't want any more today. [Laughter]]

The qualitative [evaluating management, competitive advantage, etc.] is harder to teach and understand, so why not just focus on the quantitative [e.g., cigar butt investing]? Charlie emphasized quality [of a business] much more than I did initially. He had a different background.

It makes more sense to buy a wonderful business at a fair price. We've changed over the years in this direction. It's not hard to watch businesses over 50 years and learn where the big money can be made.

Even when you get a new important idea, the old ideas are still there. There wasn't a strong line of demarcation when we moved from cigar butts to wonderful businesses. But over time, we moved.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

If you were starting out today, what would you do the same or differently?

We started out this snowball at the top of a very long hill. My advice is either start very early or live very long. I guess I□’d do it the same way: maybe I□’d start with small companies and buy good businesses. Or little pieces of □‘em called stocks.

[CM: The first $100,000 is probably the hardest part. Staying rational and significantly underspending your income helps, too.]

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

If we were to do it over again, we’d do it pretty much the same way. The world hasn’t changed that much. We’d read everything in sight about businesses and industries we think we’d understand. And, working with far less capital, our investment universe would be far broader than it is currently.

There’s nothing different, in my view, about analyzing securities today vs. 50 years ago.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

We formed our first partnership 50 years and two days ago, on May 4, 1956, with $105,000. If we were starting again, Charlie would say we shouldn’t be doing this, but if we were, we’d be investing in securities around the world. Charlie would say we couldn’t find 20, but we don’t need 20 – we only need a few that can pay off very big. We’d also be buying [stocks in] smaller companies.

If we were planning to buy [entire] businesses, we’d have a tough time. We’d have no reputation and only $1 million.

Charlie started out in real-estate development because with only a little capital, brain power and energy, you could magnify the returns in real estate unlike in other sectors.

I'd just do it one foot in front of the other over time. But the basic principles wouldn't be different. If I'd been running a little partnership three years ago, I'd have started out 100% in Korea.

Munger: You should find something to invest in and then compare everything else against that. That's your opportunity cost. That's what you learn in freshman economics, even if it hasn't made it into modern portfolio theory. That's why modern portfolio theory is so asinine.

Buffett: It really is.

Munger: When Warren said he'd put 100% of his fund in Korea, maybe he wouldn't quite do that, but pretty much. Most people won't find a lot of great things [to invest in]. Instead, you'll want to find a few things that are much better than anything else. Act on these.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[RE: How Buffett Would Invest with a Small Amount of Money]

If I were working with a very small sum – you all should hope this doesn't happen – I'd be doing almost entirely different things than I do. Your universe expands – there are thousands of times as many options if you're investing $10,000 rather than $100 billion, other than buying entire businesses. You can earn very high returns with very small amounts of money. Everyone can't do it, but if you know what you're doing, you can do it. We cannot earn phenomenal returns putting $3, $4 or $5 billion in a stock. It won't work – it's not even close.

If Charlie and I had $500,000 or $2 million to invest, we'd find little things we could do, not all of it in stocks.

Munger: But there's no point in our thinking about that now.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

You have to find your passion in life. I would choose the same job. I enjoy it. It is a terrible mistake to sleepwalk through your life. Unless Shirley MacLaine is right, you won't have another one. My dad had a business with [investment] books on his shelves, and they turned me on. This was before Playboy. If he was a minister, I'm not sure I would have been as enthused. If you have obligations, you have to deal with realities. I tell students to go work for an organization you admire or an individual you admire, which usually means that most MBAs I meet become self-employed. [laughter] I went to work for Ben Graham. I never asked my salary. Get the right spouse. Charlie talks about the man who spent twenty years looking for the perfect woman and found her. Unfortunately, she was looking for the perfect man. If you are lucky, you will be happy and as a result, you will behave better. It makes it easier.

CM: You'll do better if you have passion for something in which you have aptitude. If Warren had gone into ballet, no one would have heard of him.

WB: Or would have heard of me very differently. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[Q - With small sums of money, what strategies would you pursue?]

WB: If I were working with small sums of money, it would open up thousands of possibilities. We have found very mispriced bonds. We found them in Korea a few years ago. You could make big returns but had to be of small size. I wouldn't be in currencies with a small amount of money. I had a friend who used to buy tax liens. I'd look in small stocks or specialized bonds. Wouldn't you say that, Charlie?

CM: Sure.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[Q - If you were starting a $26 million fund, what would you do differently with a smaller asset base? How many positions would you hold, and what kind of turnover would you have? What would you do if some investments lost 50% and some gained?]

Buffett: We would hold the half-dozen stocks we liked best. We would do the same thing if they lost 50%. Cost has nothing to do with it. We look at price and think about what something is worth. Keep it in the few you know.

Munger: He [Buffett] has tactfully suggested you adopt a different way of thinking. [laughter]

[Comment: As Buffett stated, cost basis has nothing to do with investment judgment (apart from tax considerations). Nevertheless, many investors (like the questioner) pay way too much attention to what they've paid, rather than its value.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

[back to the questions.]

According to a business week report published in 1999, you were quoted as saying "it's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that." First, would you say the same thing today? Second, since that statement infers that you would invest in smaller companies, other than investing in small-caps, what else would you do differently?

Yes, I would still say the same thing today. In fact, we are still earning those types of returns on some of our smaller investments. The best decade was the 1950s; I was earning 50% plus returns with small amounts of capital. I could do the same thing today with smaller amounts. It would perhaps even be easier to make that much money in today's environment because information is easier to access.

You have to turn over a lot of rocks to find those little anomalies. You have to find the companies that are off the map - way off the map. You may find local companies that have nothing wrong with them at all. A company that I found, Western Insurance Securities, was trading for $3/share when it was earning $20/share!! I tried to buy up as much of it as possible. No one will tell you about these businesses. You have to find them.

Other examples: Genesee Valley Gas, public utility trading at a P/E of 2, GEICO, Union Street Railway of New Bedford selling at $30 when $100/share is sitting in cash, high yield position in 2002. No one will tell you about these ideas, you have to find them.

The answer is still yes today that you can still earn extraordinary returns on smaller amounts of capital. For example, I wouldn't have had to buy issue after issue of different high yield bonds. Having a lot of money to invest forced Berkshire to buy those that were less attractive. With less capital, I could have put all my money into the most attractive issues and really creamed it.

I know more about business and investing today, but my returns have continued to decline since the 50's. Money gets to be an anchor on performance. At Berkshire's size, there would be no more than 200 common stocks in the world that we could invest in if we were running a mutual fund or some other kind of investment business.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Do you believe that we'll have significant mispricings again? And if you were 26 today how would you generate the 50% returns that you said you might do with smaller amounts of capital?

Attractive opportunities come from observing human behavior. In 1998, people behaved like frightened cavemen (referring to the Long Term Capital Management meltdown). People make their own opportunities. They will be frozen by fear, excited by greed and it doesn't matter what their IQ, degrees etc is. Growth of 50% per year is with small capitalization, not large cap. The point is I got rich looking for stock with strong earnings.

The last 50 years weren't unique. It's just capitalizing on human behavior. It's people that make opportunities when others are frozen by fear or excited by greed. Human behavior allows for success if you are able to detach yourself emotionally.

In 1951, I got out of school at 20 years old. At the time there were two publishers of stock information, Moody's and Standards and Poor's. I used Moody's and went through every manual. I recently bought a copy of the 1951 Moody off of Amazon. On page 1433, there's a stock you could have made some money on. The EPS was $29 and the Price Range was from $3-$21/share. On another page, there is a company that had an EPS of $29.5 and the price range was $27-28, 1x earnings. You can get rich finding things like this, things that aren't written about.

A couple of years ago I got this investment guide on Korean stocks. I began looking through it. It felt like 1974 all over again. Look here at this company...Dae Han, I don't know how you pronounce it, it's a flour company. It earned 12,879 won previously. It currently had a book value of 200,000 won and was earning 18,000 won. It had traded as high as 43,000 and as low as 35,000 won. At the time, the current price was 40,000 or 2 times earnings. In 4 hours I had found 20 companies like this.

The point is nobody is going to tell you about these companies. There are no broker reports on Dae Han Flour Company. When you invest like this, you will make money. Sure 1 or 2 companies may turn out to be poor choices, but the others will more than make up for any losses. Not all of them will be good, but some will and those will make you rich. And this didn't happen in 1932, this was in 2004! These opportunities will be there in the next 30 years. You'll have streaks where you'll find some bad companies and a few times where you'll make money with everything that you do.

The Wall Street analysts are brilliant people; they are better at math, but we know more about human nature.

In your investing life you will have several opportunities and one or two that can't go wrong. For example, in 1998 the NY fed offered a 30-year treasury bonds yielding less then the 29-½ year treasury bonds by 30 basis points. What happened was LTCM put a trade on at 10 basis points and it was a crowded trade, they were 100% certain to make money but they could not afford any hiccups. I know more about human nature; these were MIT grads, really smart guys, and they almost toppled the system with their highly leveraged trading.

This was definitely a good time to act.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

You have often spoken of the difficulties of compounding large sums of money. But in an article I read, you were quoted as saying that you think you could compound 50% returns on small sums of money, say $1 million. Where could you find those kind of investments in today□'s market?

I was misquoted in that article. I get together with about 60 people every couple years and get their expectations of returns. Of those investors, I think there's a half dozen who could get those kinds of returns - but they're only going to find those returns in small places.

I stumble onto those things occasionally but I'm not looking for them. I'm looking for things that Berkshire Hathaway can do.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

Could you describe the capital allocation process you follow? How do you determine the charges for capital to your different managers?

There is no better way to make managers understand how valuable capital is than to charge them for it. The amount charged to them can depend on elements such as the history of the subsidiary and the level of interest rates, and has varied from 14 to 20 percent at times. The important thing, Buffett emphasized, is that “we don’t want managers to think of other people’s money as “free" money.

- *Source: BRK 1995*
- *URL:*
- *Time: 1995*

[back to the questions.]

What filters do you use when looking at companies?

[CM: Well, opportunity cost is a huge filter in life. If you've got two suitors who are eager to have you, but one is way better than the other, you're going to choose that one rather than the other. That's the way we filter stock buying opportunities. Our ideas are so simple. People keep asking us for mysteries, but all we have are the most elementary ideas.]

We know instantly whether a business is something we're going to understand, and whether it's a business that's going to have a sustainable edge, and that gets rid of a very significant percentage of opportunities. I'm sure people regard me and Charlie as very arbitrary--in the middle of the first sentence, we'll say, "We appreciate the call, but we're not interested." I'm sure that if they explain something I might get buttered on it, but we really can tell in the middle of the first sentence whether those two factors exist ... We can sometimes tell by who we're dealing with, whether a deal is ever going to work out or not. I mean, if there's an auction going on, we have no interest in talking about it. If someone is interested in doing that with their business, then they're going to want to sit down and renegotiate everything with us all over again after the deal is done ...We don't want to listen to stories all day, and we don't need brokerage reports. There's other things to do with your time.

[CM: Another filter is the concept of the quality person, which most people define as someone very much like themselves. (laughter) There are so many wonderful people out there, and there are so many awful people out there. And there are signs, like flags, waving over the awful people. And generally speaking, those people are to be avoided.]

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

[Q - Besides the type of management that you look for, when you look at financials you make decisions rather quickly. In regards to the financial information and the business overall what factors do you look at?]

We make quick decisions because we have filters before we get to the point of making a decision.

Filter #1 – Can we understand the business? What will it look like in 10-20 years? Take Intel vs. chewing gum or toilet paper. We invest within our circle of competence. Jacob's Pharmacy created Coke in 1886. Coke has increased per capita consumption every year it has been in existence. It's because there is no taste memory with soda. You don't get sick of it. It's just as good the 5th time of the day as it was the 1st time of the day.

Filter #2 – Does the business have a durable competitive advantage? This is why I won't buy into a hula-hoop, pet rock, or a Rubik's cube company. I will buy soft drinks and chewing gum. This is why I bought Gillette and Coke.

Filter #3 – Does it have management I can trust?

Filter #4 – Does the price make sense?

Since 1972 we have made no change in the marketing, process etc. Take See's candy. You cannot destroy the brand of See's candy. Only See's can do that. You have to look at the brand as a promise to the customer that we are going to offer the quality and service that is expected. We link the product with happiness. You don't see See's candy sponsoring the local funeral home. We are at the Thanksgiving Day Parades though.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

How would you recommend an individual investor who follows the Graham and Dodd philosophy to allocate their capital today?

Well, it depends whether they are going to be an active investor. Graham distinguished between the defensive and the enterprising and that. So if you are going to spend a lot of time on investment, you know I just advise looking at as many things as possible and you will find some bargains. And when you find them, you have to act. It doesn't -- it hasn't changed at all since I was here in 1950, 1951. And it won't change the rest of my life. You start turning pages. When I got out of school, I turned every page in Moody's 10,000-some pages twice, looking for companies. And you have to find them yourself. The world isn't going to tell you about great deals. You have to find them yourself. And that takes a fair amount of time. So if you are not going to do that, if you are just going to be a passive investor, then I just advise an index fund more consistently over a long period of time. The one thing I will tell you is the worst investment you can have is cash. Everybody is talking about cash being king and all that sort of thing. Most of you don't look like you are overburdened with cash anyway. Cash is going to become worth less over time. But good businesses are going to become worth more over time. And you don't want to pay too much for them so you have to have some discipline about what you pay. But the thing to do is find a good business and stick with it.

[Becky - Does that mean you think we are through the roughest times? You had always kept the cash word around, too.]

We always keep enough cash around so I feel very comfortable and don't worry about sleeping at night. But it's not because I like cash as an investment. Cash is a bad investment over time. But you always want to have enough so that nobody else can determine your future essentially. The worst -- the financial panic is behind us. The economic spillout which came to some extent from that financial panic is still with us. It will end. I don't know if it will end tomorrow or next week or next month. Or maybe a year. But it won't go on forever. And to sit around and try and pick the bottom, people were trying to do that last March and the bottom hadn't come in unemployment and the bottom hadn't come in business but the bottom had come in stocks. Don't pass up something that's attractive today because you think you will find something way more attractive tomorrow.

- *Source: Buffett & Gates at Columbia Business School*
- *URL:*
- *Time: November 12th 2009*

We have $16 billion in cash not because of any predictions [about a market decline], but because we can't find anything that makes us want to part with that cash. We're not positioning ourselves. We just try to do smart things every day, and if there's nothing smart, then we sit on cash.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

What impacts have Graham/Dodd and Phil Fisher had on your investment philosophy? What percentage of your investment philosophy would you attribute to each of them?

Well, good things would have happened with following either party. Graham obviously had more influence on me than Phil. I worked for Ben, I went to school under him, and his three basic ideas: look at stocks as businesses; have a proper attitude toward the market; and operate with a margin of safety--they all come straight from Graham. Phil Fisher opened my eyes a little more toward trying to find a wonderful business. Charlie did more of that than Phil did, but Phil was espousing that entirely, and I read his books in the early 60s. Phil's still alive, and I owe Phil a lot, but Ben was one of a kind.

[CM: Ben Graham was a truly formidable mind, and he also had a clarity in writing, and we talk over and over again about the power of a few simple ideas thoroughly assimilated, and that happened with Graham's ideas which came to me indirectly through Warren, but some also directly from Graham. The interesting thing for me is that Buffett the former protégé--by the way Buffett was the best student Graham had in 30 years of teaching at Columbia--became better than Graham. That's the natural outcome--as Milton said, "If I've seen a little farther than other men, it's by standing on the shoulders of giants." So, Warren stood on Ben's shoulders, but he ended up seeing more than Ben. No doubt somebody will come along and do a lot better than we have.]

I enjoyed making money more than Ben. With Ben it really was incidental, at least by the time I knew him. The process, the whole game, didn't interest him more than a dozen other things may have interested him. With me, I just find it interesting, and therefore I've spent a much higher percentage of my timing thinking about investing, and thinking about businesses. I probably know way more about businesses than Ben ever did. He had other things that interested him. I pursued the game quite a bit differently than he did, and therefore comparing the record is not proper.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

Since Ben Graham isn't around anymore, what money managers do you respect today? Is there a Ben Graham today?

You don't need another Ben Graham. You don't need another Moses. There were only Ten Commandments; we're still waiting for the eleventh. His investing philosophy is still alive and well. There are disciples of him around, but all we are doing is parroting. I did read Phil Fisher later on, which showed the more qualitative aspects of businesses. Common stocks are part of a business. Markets are there to serve you, not to instruct you. You can often find a couple of companies that are out of line. Find one; get rich. Most people think that what the stock does from day to day contains information, but it doesn't. It isn't just something that wiggles around. The stock market is the best game in the world. You can take advantage of people who have no morals. High prices inside of a year will typically be 100% of the low price. Businesses don't change in value that much. That is simply crazy. There are extreme degrees of fluctuation, and Mr. Market will call out the prices. Wait until he is nutty in one direction or the other. Put in a margin of safety. Don't find a bridge that says no more than 10,000 pounds when you have a 9800 pound vehicle. It isn't a function of IQ, but receptivity of the mind.

When investing you don't have to invest in all 10,000 companies available, you just have to find the one that is out of line. Mr. Market is your servant. Mr. Market is your partner and wants to sell the business to you everyday. Some days he is very optimistic and wants a high price, others he is pessimistic and will sell at a low price. You have to use this to your advantage. The market is the greatest game in the world. There is nothing else that can, at times, get this far out of line with reality. For example, land usually only fluctuates within a 15% band. Negotiated transactions are less volatile. Some get this; others don't. Just keep your wits about you and you can make a lot of money in the market.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

If you were to teach an investment course, besides works by Ben Graham and Phil Fisher and your book on the instalment basis, what would be on the syllabus?

[Q - how would you teach the next generation of investors?]

Buffett: I had 49 university groups, in clumps of six, [visit me] last year. [An education in] investing requires only two courses: How to Value a Business, and How to Think About Markets. You don't have to know how to value all businesses. Start with a small circle of competence, things you can understand. [Look for] things that are selling for less than they're worth. Forget about things you can't understand. You need to understand accounting, which has enormous limitations. [You need to] understand when a competitive advantage is durable or fleeting. Learn that the market is there to serve you, not instruct you. In the investing business, if you have an IQ of 150, sell 30 points to someone else. You do not need to be a genius. You need to have emotional stability, inner peace and be able to think for yourself, [since] you're subjected to all sorts of stimuli. It's not a complicated game; you don't need to understand math. It's simple, but not easy.

Munger: Exactly half of future investors are going to be in the bottom 50%. There is so much that's false and nutty in business schools. Reducing the nonsense would be a good goal.

Buffett: Emotional makeup is more important than technical skill.

Munger: Absolutely. If you think your IQ is 160 and it's really 150, you're a disaster.

Buffett: A student in one of the groups asked me, "What are we learning that's wrong?"

Munger: How do you answer in only one hour? [laughter]

Buffett: [My experience] has given me a jaundiced view of academia generally. Efficient market theory—that everything is priced appropriately—is bunk. There's a certain degree to which ideas that are nutty take hold and propagate. Max Planck [remarked about] the resistance of the human mind to new ideas: "Science advances one funeral at a time."

back to the questions.

What's the temperament of successful investors?

[CM: I think there's something to be said for developing the disposition to own stocks without fretting.]

I think it's almost impossible to do well investing over time without this. If the market closed for years, we wouldn't care. Would still keep making Sees candy, Dilly bars, etc.

If you focus on the price, you're assuming that the market knows more than you do. That may be the truth, but in that case you shouldn't own it. The stock market is there to serve you, not to instruct you.

Focus on price and value. If a stock gets cheaper and you have some cash, buy more. We sometimes stop buying when prices goes up. This cost us $8 billion a few years ago when we were buying Wal-Mart. When we're buying something, we want the price to go down and down and down.

You don't have to be right on everything or 20%, 10%, or 5% of businesses. You only have to be right one or two times a year. I used to handicap horses. You can come up with a very profitable decision on a single company. If someone asked me to handicap the 500 companies in the S&P 500, I wouldn't do a very good job. You only have to be right a few times in your lifetime, as long as you don't make any big mistakes.

[CM: What's funny is that most big investment organizations don't think like this. They hire lots of people, evaluate Merck vs. Pfizer and every stock in the S&P 500, and think they can beat the market. You can't do it. Very few people have adopted our approach.]

Ted Williams, in his book The Science of Hitting, talked about how he carved up the strike zone into different zones and only swung at pitches that were in his sweet spot. Investing is the same way.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[CM: We read a lot. I don’t know anyone who’s wise who doesn’t read a lot. But that’s not enough: You have to have a temperament to grab ideas and do sensible things. Most people don’t grab the right ideas or don’t know what to do with them.]

The key is to have a “money mind,” which is not IQ, and then you have to have the right temperament. If you can’t control yourself, you’re going to have disasters. Charlie and I have seen it. The whole world in the late 1990s went a little mad in terms of investments. How could that happen? Don’t people learn? What we learn from history is that people don’t learn from history.["Grade yourself on your temperament. Temperament is the ability to not be swayed by the market. See what you are supposed to see." - UCLA Q&A]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Do you agree with Philip Fisher's two reasons to sell?

To sell the business is written in the ground rules. Never going to be a takeover or sell business because street thinks unfocused. I don't quite agree with Fisher, think can ride some stocks forever.

[CM: Better off when you had 50 years ahead of you. Almost never sell operating businesses, and if we do, we do so because they can't fix their problem.]

[BRK2005 - We won’t sell a business just because it’s underperforming.]

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

back to the questions.

What tells you when an investment has reached its full potential?

I don’t buy Coke with the idea it will be out of gas in 10 years or 50 years. There could be something that happens by I think the chances are almost nil. So what we really want to do is buy businesses that we would be happy to own forever. It is the same way I fell about people who buy Berkshire. I want people who buy Berkshire to plan to hold it forever. They may not for one reason or the other but I want them at the time they buy it to think they are buying a business they are going to want to own forever.

And I don't say that is the only way to buy things. It is just the group to join me because I don't want to have a changing group all the time. I measure Berkshire by how little activity there is in it. If I had a church and I was the preacher and half the congregation left every Sunday. I wouldn't say, "It is marvelous to have all this liquidity among my members."

Terrific turnover… I would rather go to church where all the seats are filled every Sunday by the same people. Well that is the way we look at the businesses we buy. We want to buy something virtually forever. And we can't find a lot of those. And back when I started, I had way more ideas than money so I was just constantly having to sell what was the least attractive stock in order to buy something I just discovered that looked even cheaper. But that is not our problem really now. So we hope we are buying businesses that we are just as happy holding five years from now as now. And if we ever found a huge acquisition, then maybe we would have to sell something. Maybe to make that acquisition but that would be a very pleasant problem to have.

We never buy something with a price target in mind. We never buy something at 30 saying if it goes to 40 we'll sell it or 50 or 60 or 100. We just don't do it that way. Anymore than when we buy a private business like See's Candy for $25 million. We don't ever say if we ever get an offer of $50 million for this business we will sell it. That is not the way to look at a business.

The way to look at a business is this going to keep producing more and more money over time? And if the answer to that is yes, you don't need to ask any more questions.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

Could you explain more about the circle of competence?

We are best at evaluating businesses where we can come to a judgment that they will look a lot like they do now in five years. The businesses will change, but the fundamentals won't. Iscar will be better – maybe a lot bigger – in five years, but the fundamentals will be the same. [In contrast,] look at how much telecom has changed.

Charlie says we have three boxes: In, Out and Too Hard. You don't have to do everything well. At the Olympics, if you run the 100 meters well, you don't have to do the shot put.

Tom Watson [the founder of IBM] said, "I'm no genius. I'm smart in spots and I stay around those spots." We have a lot of managers who are the same. You don't want to compete with Pete Liegl [the CEO of Forest River, Inc.] because he'll kill you in the RV business. But he doesn't try to tell us how to run the insurance business.

I was virtually there at the birth of Intel. I was on the board of Grinnell College with Bob Noyce [one of the founders of Intel] and Grinnell invested $300,000 into it at inception. [I easily could have as well, but] I had no idea then and still don't now what Intel will look like in five years. Even people in the industry don't. Some businesses are very, very hard to predict.

[CM: A foreign correspondent, after talking to me for a while, once said: "You don't seem smart enough to be so good at what you're doing. Do you have an explanation?" [Laughter]]

Buffett: Was he referring to me or you? [Laughter]

[CM: I said, "We know the edge of our competency better than most." That's a very worthwhile thing. It's not a competency if you don't know the edge of it.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[BRK2007 - What makes the difference is whether the people running them know their strengths and weaknesses and play when it is to their advantage and do nothing when it is not.]

back to the questions.

What two industries are the first you should learn when developing your circle of competence?

Look for simple businesses. If I gave you $10M to invest right now and you only had three weeks to spend it and you could only spend it in Omaha, you'd look for simple, understandable, strong businesses. You look at the Nebraska Furniture Mart (NFM). You wouldn't look at the third best fast food chain. You might look at McDonald's, because it is number one and will probably always been number one. They have share of mind. What about Oracle? Too hard. GM? Too hard. You can't predict the future for these two companies. Too many variables.

Investment knowledge is cumulative, and things you learn will make you better in the future. Stick to things you understand. Mrs. B at NFM wouldn't get paid in Berkshire stock. Why? She doesn't know stocks, but she knows furniture down cold. How do you beat Bobby Fisher? Play him in anything except chess. Even young people have a circle of competence even if they don't have their thoughts perfectly organized.

- *Source: BRK Q&A by John Reuwer*
- *URL:*
- *Time: Nov 19th 2009*

back to the questions.

Is there a moral connection to who you invest in?

Charlie and I went to Memphis to look at a chewing tobacco company. In the end, we decided we didn't want to own it. We would buy stock in a tobacco company, but we didn't want to own it.

A good example is Charlie's favorite company, Costco. They are the #3 distributor in the US of cigarettes, but you wouldn't avoid buying it because of that. You'll drive yourself crazy trying to keep track of these things. Our philosophy is that it's impossible to grade marketable securities, but we'll buy the stocks without any problems, but we just won't be in certain businesses.

My view is that energy production should move to nuclear. It's clean, cheap and safe. Coal emissions are bad for the environment; however it's still a good company. It's impossible to grade marketable securities on moral activity. Berkshire Hathaway has and will buy what trades, but will not buy companies that engage in certain behaviors. PetroChina owns 40% of the oil in the Sudan that is government owned. If they did not own it, someone else would. Also, you have to keep in mind, if PetroChina did not buy it its possible the Sudanese would own 100% of the oil rights and that's not so good either.

I find it funny that people find time to protest PetroChina for ownership of the Sudanese oil, but with the $300 billion or so of imported goods from China, these same people don't protest Chinese goods. They protest investment in Chinese companies though.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

Who do you think will be one of the next greatest investors and are you partial to favoring someone with a similar investment style as yours?

We just finished looking for someone. The Board has 3 candidates to replace me as CEO and 4 candidates to replace me as investor. They are all doing fine where they are, but they would be willing to come over to Berkshire for less pay.

In 1969, I wound up my partnership and I had to help people find someone to manage their money. I recommended Bill Ruane of Sequoia Fund, Sandy Gottesman, who is currently on the board at Berkshire, and Walter Schloss, who I wrote about in "The Superinvestors of Graham and Dodds-ville". There's no way they could miss.

But I don't know many of the newer investors, they're not my contemporaries. It's not enough to just look at track records.

They aren't predictive and there will always be a few people that do well. I know guys who can make 50% a year with $5 million, but not with $1 billion. The problem with guys that do well is they attract so much money that it neutralizes their advantage. It's hard to identify them, and even harder to make a deal to keep them from attracting other capital. It's like betting on a 12 year old horse that won at 3 years old. It's also important to avoid managers who use leverage. It's the reason that investors with 160 IQs flame out.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

What do you think of discounted cash flow (DCF) models?

Buffett: All investing is laying out cash now to get some more back in the future. The concept of "a bird in the hand" came from Aesop in about 600 BC. He knew a lot, but not that [he lived in] 600 BC. He couldn't know everything. [laughter] The question is, how many birds are in the bush? What is the discount rate? How confident are you that you'll get [the bird]? Et cetera. That's what we do. If you need to use a computer or calculator to figure it out, you shouldn't [buy the investment]. Those types of [situations] fall into the "too-hard" bucket. It should be obvious. It should shout at you, without all the spreadsheets. We see something better.

Munger: Some of the worst business decisions I've seen came with detailed analysis. The higher math was false precision. They do that in business schools, because they've got to do something.

Buffett: The priesthood has to look like they know more than "a bird in the hand." You won't get tenure if you say "a bird in the hand." False precision is totally crazy. The markets saw it in the Long-Term Capital Management [hedge fund] in 1998. It only happens to people with high IQs. The markets of mid-September last year were [such that] you can't calculate standard deviations. People's actions don't observe laws of math. It's a terrible mistake to think higher math will take you a long way— you don't need to understand it, [and] it may lead you down the wrong path.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Could you explain your opportunity cost decisions of the past year?

Buffett: Opportunity costs have been in the forefront of our minds during the last 18 months. It's tougher to calibrate A, versus B, versus C in a fast-changing environment. Tougher and possibly more profitable. We got lots of calls [for potential investments]—most we ignored. We were called by Goldman Sachs on a Wednesday for $5 billion, and we [already] had a $5 billion commitment to Constellation Energy, $3 billion on Dow Chemical, $6.5 billion on the Wrigley Mars deal. We never want to get dependent on banks. It's a good sign that we haven't had the flurry [of phone calls] like last year. Normally, we would not have sold Johnson & Johnson if it were 10 – 15 points higher, [but we wanted to have a comfortable amount of cash on hand]. Our definition of comfortable is very comfortable.

[Comment: The real cost of any purchase isn't the actual dollar cost. Rather, it's the opportunity cost — the value of the investment you didn't make, because you used your funds to buy something else.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What are your views on diversification?

I have 2 views on diversification. If you are a professional and have confidence, then I would advocate lots of concentration. For everyone else, if it's not your game, participate in total diversification. The economy will do fine over time. Make sure you don't buy at the wrong price or the wrong time. That's what most people should do, buy a cheap index fund, and slowly dollar cost average into it. If you try to be just a little bit smart, spending an hour a week investing, you're liable to be really dumb.

If it's your game, diversification doesn't make sense. It's crazy to put money into your 20th choice rather than your 1st choice. "Lebron James" analogy. If you have Lebron James on your team, don't take him out of the game just to make room for someone else. If you have a harem of 40 women, you never really get to know any of them well.

Charlie and I operated mostly with 5 positions. If I were running 50, 100, 200 million, I would have 80% in 5 positions, with 25% for the largest. In 1964 I found a position I was willing to go heavier into, up to 40%. I told investors they could pull their money out. None did. The position was American Express after the Salad Oil Scandal. In 1951 I put the bulk of my net worth into GEICO. Later in 1998, LTCM was in trouble. With the spread between the on-the-run versus off-the-run 30 year Treasury bonds, I would have been willing to put 75% of my portfolio into it. There were various times I would have gone up to 75%, even in the past few years. If it's your game and you really know your business, you can load up.

Over the past 50-60 years, Charlie and I have never permanently lost more than 2% of our personal worth on a position. We've suffered quotational loss, 50% movements. That's why you should never borrow money. We don't want to get into situations where anyone can pull the rug out from under our feet.

In stocks, it's the only place where when things go on sale, people get unhappy. If I like a business, then it makes sense to buy more at 20 than at 30. If McDonalds reduces the price of hamburgers, I think it's great.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

The question is about diversification. I have a dual answer to that. If you are not a professional investor. If your goal is not to manage money to earn a significantly better return than the world, then I believe in extreme diversification. I believe 98% - 99% who invest should extensively diversify and not trade, so that leads them to an index fund type of decision with very low costs. All they are going to do is own part of America. And they have made a decision that owning a part of America is worthwhile. I don't quarrel with that at all. That is the way they should approach it unless they want to bring an intensity to the game to make a decision and start evaluating businesses. Once you are in the businesses of evaluating businesses and you decide that you are going to bring the effort and intensity and time involved to get that job done, then I think diversification is a terrible mistake to any degree. I got asked that question the other day at SunTrust. If you really know businesses, you probably shouldn't own more than six of them.

If you can identify six wonderful businesses, that is all the diversification you need. And you will make a lot of money. And I can guarantee that going into a seventh one instead of putting more money into your first one is gotta be a terrible mistake. Very few people have gotten rich on their seventh best idea. But a lot of people have gotten rich with their best idea. So I would say for anyone working with normal capital who really knows the businesses they have gone into, six is plenty, and I probably have half of what I like best. I don't diversify personally. All the people I've known that have done well with the exception of Walter Schloss, Walter diversifies a lot. I call him Noah, he has two of everything.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

[Q - How do you get confident enough with that [smaller] level of diversification?]

WB: If we were running only our own money, putting 75% of our net worth in a single position is not a problem if it is something we really have high confidence in. Putting 500% or more of your net worth in a position is a problem. Several times I have had 75% of my non-Berkshire net worth in a situation. You will see things where it would be a mistake not to act. You won't see them often, and the press and your friends won't be talking about them. Wouldn't you say, Charlie? 75% is not a real significant amount?

CM: Sometimes, I have had more than 100% in an individual investment.

WB: You just had a good banker. Look at LTCM — they put 25x their money in things that had to converge but couldn't play out the hand. There are people in this room with more than 90% of their worth in Berkshire. I saw things in 2002 in junk bonds that would have been worth going heavily into. You could have bought Cap Cities in 1974 — selling for one-third the property value, with the best manager, and in a good business. You could have put 100% in Coca-Cola when we bought it and that wouldn't have been a dangerous position.

CM: Students learn corporate finance at business schools. They are taught that the whole secret is diversification. But the exact rule is the opposite. The 'know-nothing' investor should practice diversification, but it is crazy if you are an expert. The goal of investment is to find situations where it is safe not to diversify. If you only put 20% into the opportunity of a life-time, you are not being rational. Very seldom do we get to buy as much of any good idea as we would like to.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Would you consider spinning off some companies to realize value?

Buffett: We will not be spinning off any companies. We can't wait to throw them [people who suggest spin offs] out of the office. We have a real advantage in allocating capital—moving money around. When we buy companies from people, we buy them for keeps. People can trust us to keep our word on this.

Munger: Wall Street sells that stuff [spin-offs] for fees. It doesn't really do much for anyone. Short of some regulatory change, we're unlikely to [spin something off].

Buffett: We have listened to presentation after presentation by investment bankers, but there is always a fee.

[Comment: A similar question was asked and addressed earlier in the meeting. Short of indefinite operating losses or intractable labor problems, Buffett is not going to spin-off subsidiaries like some poker player passing cards to his right in hopes of "realizing value," when doing so would damage his reputation as a buyer (and keeper) of businesses.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Why would you hold stocks forever, if the fundamentals change permanently? (Buy and hold)

Buffett: We don't—we sell plenty. If we lose confidence or conditions change, we sell. When in doubt, we keep holding. But for [our wholly-owned] companies, we hold and won't sell unless a company promises to lose money indefinitely, or there's a labor problem. We buy for keeps and won't sell, even if the offer is for more than [the company is] worth. If we were wrong, we sell. Last year, I sold a couple of billion dollars' worth of Johnson & Johnson just to raise cash for other purposes—an unusual situation. Someone asked us earlier what we'd do differently if we owned the whole company [Berkshire]. The answer is: nothing. We run Berkshire as if we owned 100%. Our peculiarity is our commitment to buy for keeps. People who sell their businesses to Berkshire know we won't hire some management consultant or leverage it up, and that's a real advantage.

Munger: The Berkshire system has legs, as they say in show business.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Why do you think more people don't follow your advice?

The advice doesn't promise enough…it's not a "get rich quick" scheme, which is what a lot of other philosophies promise.

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

back to the questions.

Why do you think that despite making your methods publicly available, that relatively few people have been able to emulate your success?

I asked Graham the same question. Everyone took his class at ColumbiaBusiness School. He used current examples, and by the end of the semester you would have a portfolio that would've made you money. Graham lived a life of sharing. He may have had more money hoarding, but lived happier because of it. The money's just a figure in the paper, perhaps he would've died with 86 million instead of 42 million, but it doesn't really matter. 90% of the people that took his class ended up doing something else.

At age 11 I started investing, purchasing three shares of Cities Service Preferred. I had read every book on investing in the Omaha library. I was really into charting and technical analysis. I loved it, but didn't make any money from it. At 19 I read Graham's "The Intelligent Investor" and it changed my world. Did Ben lose because I read his book? Maybe we competed and he made less money, but it didn't matter to Graham.

The philosophy either takes immediately or it doesn't at all. The reason gets down to temperament. People want to make money fast, but it doesn't happen that way. Graham's philosophy doesn't promise enough for many people. You don't know when it will happen, but you just wait for the fat pitches within your circle of competence. It's not as exciting as guessing whether the stock price will go up the next day. Most investors in internet companies didn't know the market cap. They were buying because they thought the stock would move, but if you asked them to write "I would buy XYZ company for $6 billion because", they wouldn't get halfway through the sentence. It's the classic tortoise versus hare, bound to work over time. Charlie and I have educated competitors. Most don't compete with us, though. It's fine, we have more than enough money.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

What have been your best investments ever?

See's was very important to us to learn about [running a] business, and to provide cash for a lot of other things.

[Also,] buying the first half of GEICO for $40 million, given what we've gotten out of it and its future potential. (We later paid $2 billion for the 2nd half.) GEICO still has enormous possibilities for growth.

In the past I've touted the American Express card – well today, I'm going to tout the GEICO credit card. That being said, I advise you to pay off your credit card. It's a terrible mistake to get hooked on revolving credit at high interest rates.

I met with 21 groups of students last year and what I tell them is, even if you don't remember anything else I say, please don't get hooked on credit card debt.

GEICO is a great, great business model, run by a superb person and businessman, Tony Nicely.

[CM: The search expenses that brought us Ajit Jain – I cannot think of a better investment. This is a good life lesson: getting the right people into your system is the most important thing you can do.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

Could you give us your definition of stock market risk

We think first in terms of business risk. The key to Graham's approach to investing is not thinking of stocks as stocks or part of the stock market. Stocks are part of a business. People in this room own a piece of a business. If the business does well, they're going to do all right as long as long as they don't pay way too much to join in to that business. So we're thinking about business risk. Business risk can arise in various ways. It can arise from the capital structure. When somebody sticks a ton of debt into a business, if there's a hiccup in the business, then the lenders foreclose. It can come about by their nature--there are just certain businesses that are very risky. Back when there were more commercial aircraft manufacturers, Charlie and I would think of making a commercial airplane as a sort of bet-your-company risk because you would shell out hundreds and hundreds of millions of dollars before you really had customers, and then if you had a problem with the plane, the company could go. There are certain businesses that inherently, because of long lead time, because of heavy capital investment, basically have a lot of risk. Commodity businesses have a lot of risk unless you're a low-cost producer, because the low-cost producer can put you out of business. Our textile business was not the low-cost producer. We had fine management, everybody worked hard, we had cooperative unions, all kinds of things. But we weren't the low-cost producers so it was a risky business. The guy who could sell it cheaper than we could made it risky for us. We tend to go into businesses that are inherently low risk and are capitalized in a way that that low risk of the business is transformed into a low risk for the enterprise. The risk beyond that is that even though you identify such businesses, you pay too much for them. That risk is usually a risk of time rather than principal, unless you get into a really extravagant situation. Then the risk becomes the risk of you yourself--whether you can retain your belief in the real fundamentals of the business and not get too concerned about the stock market. The stock market is there to serve you and not to instruct you. That's a key to owning a good business and getting rid of the risk that would otherwise exist in the market.

You mention volatility--it doesn't make any difference to us whether the volatility of the stock market is a half a percentage of a point a day, or a quarter percent a day, or five percent a day. In fact, we'd probably make a lot more money if volatility was higher because it would create more mistakes in the market. Volatility is a huge plus to the real investor. Ben Graham used the example of Mr. Market. Ben said that just imagine that when you bought a stock you in effect bought into a business where you have this obliging partner who comes around every day and offers you a price at which he'll either buy or sell and that price is identical. No one ever gets that in a private business, where daily you get a buy-sell offer by a party. But you get that in the stock market, and that's a huge advantage. And it's a bigger advantage if this partner of yours is a heavy-drinking manic depressive. (laughter) The crazier he is, the more money you're going to make. So, as an investor, you love volatility. Not if you're on margin, but if you're an investor you're not on margin, and if you're an investor you love to get these wild swings because it means more things are going to get mispriced. Actually, volatility in recent years has dampened from what it used to be. It looks bigger because people think in terms of Dow points, but volatility was much higher many years ago than it is now. The amplitude of the swings used to be really wild and that gave you more opportunity. Charlie?

[CM: Well it came to be that corporate finance departments at universities developed the notion of risk-adjusted returns. My best advice to all of you would be to totally ignore this development. Risk had a very good colloquial meaning, meaning a substantial chance that something could go horribly wrong, and the finance professors sort of got volatility mixed up with a bunch of foolish mathematics and to me it's less rational than what we do. And I don't think we're going to change.]

Finance departments believe that volatility equals risk. They want to measure risk, and they don't know how to do it, basically. So they said volatility measures risk. I've often used the example of the Washington Post's stock. When I first bought it in 1973 it had gone down almost 50%, from a valuation of the whole company of close to $170 million down to $80 million. Because it happened pretty fast, the beta of the stock had actually increased, and a professor would have told you that the company was more risky if you bought it for $80 million than if you bought it for $170 million. That's something I've thought about ever since they told me that 25 years ago and I still haven't figured it out. (laughter)

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

One key aspect to risk is how long you expect to hold an investment, i.e., stock in Coca Cola might be very risky if bought for a day trade or to hold for only a week. But, over a 5 or 10 year period it probably has almost no risk at all.

The myth that volatility of a stock somehow equates to risk was discussed. In fact, volatility often creates great opportunity, in Buffett's view. The following comments on risk in investments were in the 1993 Annual Report, on page 14:

"Charlie and I decided long ago that in an investment lifetime it's just too hard to make hundreds of smart decisions. That judgment became ever more compelling as Berkshire's capital mushroomed and the universe of investments that could significantly affect our results shrank dramatically. Therefore, we adopted a strategy that required our being smart- and not too smart at that - only a very few times. Indeed, we'll now settle for one good idea a year. (Charlie says it's my turn.)

The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort level he must feel with its economic characteristics before buying into it. In stating this opinion, we define risk, using dictionary terms, as "the possibility of loss or injury".

Academics, however, like to define investment "risk" differently, averring that it is the relative volatility of a stock or portfolio of stocks - that is, their volatility as compared to that of a large universe of stocks. Employing data bases and statistical skills, these academics compute with precision the "beta" of a stock - its relative volatility in the past - and then build arcane investment and capital-allocation theories around this calculation. In their hunger for a single statistic to measure risk, however, they forget a fundamental principle: It is better to be approximately right than precisely wrong".

For owners of a business - and that's the way we think of shareholders - the academics' definition of risk is far off the mark, so much so that it produces absurdities. For example, under beta-based theory, a stock that has dropped very sharply compared to the market - as had Washington Post when we bought it in 1973 - becomes "riskier" at the lower price than it was at the higher price. Would that description have then made any sense to someone who was offered the entire company at a vastly-reduced price?

- *Source: BRK Annual Meeting 1994*
- *URL:*
- *Time: May 1994*

"We regard using [a stock's] volatility as a measure of risk is nuts. Risk to us is 1) the risk of permanent loss of capital, or 2) the risk of inadequate return. Some great businesses have very volatile returns -- for example, See's usually loses money in two quarters of each year -- and some terrible businesses can have steady results.

[Munger: "How can professors spread this? I've been waiting for this craziness to end for decades. It's been dented, but it's still out there."]

If someone starts talking to you about beta, zip up your pocketbook."

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: April 2001*

We think the best way to minimize risk is to think. Our default is [to have our capital] in short-term instruments and only do something when it makes sense.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: April 2004*

[RE: Beta]

Volatility does not measure risk. The problem is that the people who have written about and taught volatility do not understand risk. Beta is nice and mathematical, but it's wrong. Past volatility does not determine risk.

Take farmland here in Nebraska: the price of land went from $2,000 to $600 per acre. The beta of farms went way up, so according to standard economic theory, I was taking more risk buying at $600. Most people would know that's nonsense because farms aren't traded. But stocks are traded and jiggle around and so people who study markets translate past volatility into all kinds of measures of risk. The whole concept of volatility is useful for people whose career is teaching, but useless to us.

Risk comes from the nature of certain kinds of businesses by the simple economics of the business, and from not knowing what you're doing. If you understand the economics and you know the people, then you're not taking much risk.

Munger: We'd argue that what's taught is at least 50% twaddle, but these people have high IQs. We recognized early on that very smart people do very dumb things, and we wanted to know why and who, so we could avoid them. [Laughter]

Buffett: We are willing to lose $6 billion in one catastrophe, but our insurance business over time is not very risky. If you own a roulette wheel, you sometimes have to pay 35-to-1, but that's okay. We would love to own a lot of roulette wheels.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

How much and how does risk factor into your investment decisions? Would you invest in emerging markets?

In general, emerging markets are not great for me because I need to put a lot of money to work. Risk does not equal beta. Risk comes around because you don't understand things, not because of beta. There are normally 10 filters or so that I go through when I hear an idea. The first is can I understand the business and understand the downside not just today but five to ten years from now. There have been very few times that I've lost 1% of my net worth. I might be risk averse but I am not action adverse. Mrs. B saved $500 over the course of 16 years to start and build Nebraska Furniture Mart. Tom Watson Sr of IBM said, "I'm smart in spots and I stay in those spots." I just stay within my circle of confidence. When I bought Nebraska Furniture Mart in 1983, Mrs. B took cash and not Berkshire stock. Why? She didn't understand the value of stock. She understood cash and that is what she took. I need only need to be right a few times and can let thousands of ideas go by.

Ted Williams, who wrote the "Science of Hitting," broke the strike zone into 92 ball shaped sections. He knew, if hit in his sweet spot, he'd hit 430, a little further out, and he'd hit 350. You have to know your sweet spot. The beautiful thing about investing is that it's a "No called strike game" where unlike baseball the only strikes in investing are when you swing. I don't have to swing.

When I do invest, I don't care if the stock price goes from $10 to $2 but I do care about if the value went from $10 to $2. Avoid debt. I decided early on that I never wanted to owe more than 25% of my net worth, and I haven't… except for in the very beginning. I like to play from a position of strength. I always try to have the odds in my favor. When I go to Vegas, I don't go around putting $5 dollars on the blackjack tables. If someone wants to come to my room and put $5 on my bed, well that's fine. I like those odds better.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

[back to the questions.]

What do you think of setting an asset allocation?

We don't hold any committee meetings. The business of saying you should have 50% in stocks, 30% in bonds…it's nonsense.

The idea of recommending that assets should be split 60/40 [between stocks and bonds], and then have a big announcement that you're moving to 65/35 is pure nonsense. It just doesn't make any sense.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[CM: Berkshire doesn't do much conventional asset allocation. We just search for good opportunities and don't want to put up artificial barriers. In this sense, we're totally out of step with modern portfolio management, but we think they're wrong.]

Well over 80% of our assets are in the U.S.

[CM: When have you ever done a big asset allocation?]

Never. But if junk bonds had stayed low for longer, we could have invested $30 billion instead of $7 billion.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

How often do you review each position in your portfolio?

Buffett: It breaks down into two periods of my life: when I had more ideas than money, I was constantly reviewing my portfolio, figuring out which stock to unload to buy a new one.

Today, I have more money than ideas so we aren't really thinking of selling when the alternative is cash. But we're always collecting information on every company we own – it is a continuous process, but not with the idea that daily, weekly or monthly activity will result.

If we needed money for a very big deal, $20-, $30- or $40-billion, and we had to sell $10 billion in equities, we'd use information we've been collecting daily to decide what to sell.

Munger: Even in Warren's early days, he wasn't thinking about his #1 choice [his single favorite stock] – he could put that aside [because he'd never sell it].

Buffett: We think about adding more to certain stocks and have done so. We add to ones that look attractive and that we can buy. If you look at the portfolio at the end of 2007 you'll see that certain positions have been increased by billions of dollars. We like many of our positions and if they get cheap, we'll buy more.

Sometimes there's not enough stock or we might cross certain thresholds that cause reporting requirements or going above 10%, which triggers the [short-swing rule.]()

Munger: It's not as easy as it looks to buy these big positions. When we were buying Coca-Cola, we bought every share we could – we bought 30-40% of the volume, yet it still took us a long time to accumulate our position. However, we like it better when we have these problems now than when we didn't earlier.

Buffett: We usually feel we can buy 20% of the daily volume and not move the market too much. That means if we want to buy $5 billion, we have to wait for $25 billion to trade and not a lot of stocks trade that much.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[back to the questions.]()

What are your expectations for future returns on stocks?

When I closed the Buffett Partnership, I felt (and wrote to my investors) that the prospective return was about the same for equities and municipal bonds over the next decade, and I was roughly right. It's not the same today. I'd have 100% of bonds in short-term bonds. Forced to choose between owning the S&P 500 vs. 20-year bonds, I'd buy stocks – and it would not be a close decision. But I wouldn't have an equity investment with someone who charged high fees.

We don't have the faintest idea where the S&P or bonds will be in three years, but over 20 years we'd prefer to own stocks.

Munger: We think there will be a disruption not too many years ahead.

Buffett: Of course, you could have said that and have been right at any point in the past century – there are always disruptions – but stocks have still done well. We'd rather have good stocks than sit around and hope they get cheaper, so anytime we see something good, we buy, hopefully in size.

[Q - If you were to follow up on your Fortune article from 1999 about the lean and fat periods (Mr. Buffett on the Stock Market), what would you be writing? You talked about 17-year periods. How is it turning out now, since we're halfway through the next one?]

There's nothing magical about 17-year periods – I just had a little fun with it because there were two 17-year periods, and there are 17-year locusts.

In 1999, people were extrapolating from the experience of the previous 17 years and had unrealistic expectations. They were bound to be disappointed.

If I were writing something now, I'd say I'd have expectations beyond 4.75% – I don't know how much more, but more for sure. I would not have high expectations for equities, but better than for bonds.

Munger: Since that article was written, the experience from owning equities has been pretty lean, so Warren's been right so far and I suspect is right now to have modest expectations.

Buffett: It's hard to be right every day or week or month – that's what happens if you're on TV too often. [Tilson - He mentioned 1974 and a few other years in which he made market predictions; I wrote a column about this in 1999, Buffett's Prescient Market Calls, suggesting my readers heed Buffett's warning in the Fortune article. Incidentally, Buffett's

Market Call #5 highlighted in my article proved to be particularly correct: from 1993-2002 the S&P 500 compounded at 9.4% annually, far less than the 16.1% of the 10 previous years]. But every now and then, things really get out of whack. But the gradations in between are too tough. If you own great businesses, you should just hold on most of the time, maybe sell if the valuations get extremely high and buy more if they get really cheap like in the early 1970s.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

Do you expect the stock market premium to continue to be 6.5% over bonds?

I don't think that the stock market will return 6.5% over bonds in the future. Stocks usually yield a little more, but that isn't ordained. Every once in a while, stocks will get very cheap, but it isn't ordained in scripture that this is so. Risk premiums are mostly nonsense. The world isn't calculating risk premiums.

The best book prior to Graham was written by Edgar Lawrence Smith in 1924 called Common Stocks as Long Term Investments. It was a study that evaluated how bonds compared to stocks in various decades of the past. There weren't a whole lot of publicly traded companies back then. He thought he knew what he was going to find. He thought that he'd find that bonds outperformed stocks during periods of deflation, and stocks outperformed during inflationary times. But what he found was that stocks outperformed the bonds in nearly all cases. John M. Keynes then enumerated the reasons that this was so. He said that over time you have more capital working for you, and thus dividends would grow higher. This was novel information back then and investors then went crazy and started buying stocks for these higher returns. But then they started to get crazy, and no longer really applied the sound tactics that made the reasons given in the book true. Be careful that when you buy something for a sound reason, make sure that the reason stays sound.

If you buy GM, you need to write the price and the respective market valuation. Then write down why you are buying the business. If you can't, then you have no business doing it.

Quote from Ben Graham: “You can get in more trouble with a sound premise than an unsound premise because you'll just throw out the unsound premise”.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

You have espoused a constant ROE on the stock market of about 13%, over time. Do you think that such an expectation is reasonable if you factor into equity and ROE the effect of stock options granted to managements? When option programs are present in a company, what do you think is a realistic way of valuing them on a cash basis?

The questioner is Jon Brandt, the son of a very good friend of mine for many years. Jon is referring to an article I wrote for Fortune in the 1970□’s - and he□’s also referring to the tremendous ROE shown on the S&P 500, which includes the effects of restructurings.

Even allowing for the effects of stock options, I have still been surprised by the returns on equity shown by the S&P 500. As for options, we look at what the value of average option issuance is going to be over the next five years and figure what they□’d be worth as warrants to the [issuing] company. That□’s what we use as a cost to shareholders.

This should be shown as an expense in the income statement. I think a number of auditors believed it should be a cost but their clients pressured them and caved, and then Congress got called in. I think it□’s a scandal. Charlie?

[Munger: It□’s fundamentally wrong not to have honest accounting. It□’s wrong to have little corruptions, that later can become big corruptions. The accounting in America is corrupt. It is not a good idea to have corrupt accounting.

It□’s like campaign reform. Once you get a number of players benefitting, it□’s hard to get reform. It□’s the same thing with options accounting. It would have been better to have reform a couple decades ago, when it wasn□’t such a big thing.

That doesn□’t mean that we□’re against options. They could make sense here at some point, but not with Charlie and me.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[CM: I don't know if we'll ever see stocks in general at mouthwatering levels that we saw in 1973-4 or 1982 even. I think there's a very excellent chance that neither Warren or I will see those opportunities again, but that's not all bad. We'll just keep plugging away.]

It's not out of [the realm of] possibility though. You can never predict what markets will do. In Japan, a 10 year bond is yielding 5/8 of 1%. [Who could have ever imagined that?]

[CM: If that could happen in Japan, something much less bad could happen in the US. We could be in for a period in which the average fancy paid investment advisor just won't do very well.]

Chaotic markets might not be good for society, but create opportunities for us.

There were some great opportunities in junk bonds last year and we invested in a few. But money is pouring into junk bonds right now, $1 billion per week. The world hasn't changed that much.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[back to the questions.]

Do you think investors expect too much?

The problem is the starting point in predicting modest returns for equity investors. [Expectations were too high.] In 1999, a

Gallup poll showed people expected 15% [returns from stocks] in a low inflation environment. In a low inflation environment, how much will GDP grow? If there's 2% inflation and 3% [real] growth, that's 5%. This will be the rate of corporate growth, so if you add dividends, you get 6-7% [annualized returns] before frictional costs -- and investors incur high frictional costs (they don't have to, but they do) -- which adds up to 1.5%. [This 4.5-5.5% is] not bad.

[CM: My attitude is slightly more negative than Warren's.]

It [6-7% growth] is not the end of the world. If we get 5-6% of the pie -- those of us who put our capital out -- I don't know if it's exactly what someone who designed the universe would come up with, but I don't think that's crazy in either direction. It provides a pretty decent real return in a period of low inflation. If you get high inflation, you could get very low real returns, even negative.

[CM: I don't you'll get real help from me or from economists either. If an economist saw a job going to China, he doesn't care -- it saves costs. But if all the jobs go to China, what then? People actually get paid to say things like this.]

Maybe we should export all economists to China.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[Re: NYSE’s Merger with Archipelago]

I personally think it would be better if the NYSE remained as a neutral, not-for-big-profit institution. The exchange has done a very good job over the centuries. It’s one of the most important institutions in the world.

The enemy of investment success is activity. The exchange of yesterday will be better for the American investor. I know the American investor will not be better off if volume doubles on the NYSE, and I know the NYSE will be trying to figure out how to do that if it is trying to maximize its own earnings per share.

Trading is the frictional cost of capitalism. GM or IBM will not earn more money if their stock turns over more actively, but a for-profit NYSE will.

[CM: I feel the same, only more strongly. I think we have lost our way when people like the [board of] governors and the CEO of the NYSE fail to realize they have a duty to the rest of us to act as exemplars. I don't think you want to turn the stock exchange of the country into an even larger casino than it is already.

You do not want your first-grade school teacher to be fornicating on the floor or drinking booze in the classroom; similarly you do not want your stock exchange to be setting the wrong moral example. I am appalled.]

I wish I'd gone to first grade where he did. (Laughter)

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What's your investment hurdle rate?

10% is the figure we quit on -- we don't want to buy equities when the real return we expect is less than 10%, whether interest rates are 6% or 1%. It's arbitrary. 10% is not that great after tax.

[CM: We're guessing at our future opportunity cost. Warren is guessing that he'll have the opportunity to put capital out at high rates of return, so he's not willing to put it out at less than 10% now. But if we knew interest rates would stay at 1%, we'd change. Our hurdles reflect our estimate of future opportunity costs.]

We could take the $16 billion we have in cash earning 1.5% and invest it in 20-year bonds earning 5% and increase our current earnings a lot, but we're betting that we can find a good place to invest this cash and don't want to take the risk of principal loss of long-term bonds [if interest rates rise, the value of 20-year bonds will decline].

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Do you prefer public or private investments?

Berkshire has previously said that they would prefer more private investments but have trouble finding suitable ones. At the present time, the public market offers more opportunity. There are very few good private situations around and those that are available tend to be overpriced. Berkshire has a billion dollars in cash at present.

Buffett says there is more possibility of significant "mispricing" in the public stock market. This is because emotion plays a larger role in the public market, and the very superficial knowledge with which most investors operate. Owners of significant private business on the other hand, tend to have a much better idea of what their businesses are really worth.

There is very tough competition currently for the few good private businesses of decent size from: MBO funds or LBO funds. Typically these funds are run by people using other people's capital; they benefit from upside but don't suffer as much from downside since it is not their money that is at stake. Therefore, they are less worried about overpaying for a business

Other public companies. They don't mind overpaying; management of these types of companies are often more focused on size, than on return on investment and often are not big shareholders. These types of buyers don't mind issuing new stock in payment, whereas Berkshire doesn't like to issue new common stock.

Buffett definitely feels that the "stock market is far less efficient than the private market".

- *Source: BRK Annual Meeting 1994*
- *URL:*
- *Time: 1994*

back to the questions.

Investors eventually repeat their mistakes. How can you prevent this--through fast

growth or safety?

If you understood a business perfectly and the future of the business, you would need very little in the way of a margin of safety. So, the more vulnerable the business is, assuming you still want to invest in it, the larger margin of safety you'd need. If you're driving a truck across a bridge that says it holds 10,000 pounds and you've got a 9,800 pound vehicle, if the bridge is 6 inches above the crevice it covers, you may feel okay, but if it's over the Grand Canyon, you may feel you want a little larger margin of safety in terms of driving only drive a 4,000 pound truck across. It depends on the nature of the underlying risk. We don't get the margin of safety now that we got in the 1970s.

The best thing is to learn from other guys' mistakes. Patton used to say, "It's an honor to die for your country; make sure the other guy gets the honor." There are a lot of mistakes that I've repeated. The biggest one, the biggest category over time, is being reluctant to pay up a little for a business that I knew was really outstanding. The cost of that I think is in the billions, and I'll probably keep making that mistake. The mistakes are made when there are businesses you can understand and that are attractive and you don't do something about them. I don't worry at all about the mistakes that come about like when I met Bill Gates and didn't buy Microsoft or something like that. Most of our mistakes have been mistakes of omission rather than commission.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: 1997*

back to the questions.

Why do large caps outperform small caps?

We don't care if a company is large cap, small cap, middle cap, micro cap. It doesn't make any difference. The only questions that matter to us:

- Do we understand the business?
- Do we like the people running it?
- And does it sell for a price that is attractive?

From my personal standpoint running Berkshire now because we got, pro forma for Gen. Re, $75 to $80 billion to invest in and I only want to invest in five things, so I am really limited to very big companies. But if I were investing $100,000, I wouldn't care whether something was large cap or small cap or anything. I would just look for businesses I understood.

Now, I think, on balance, large cap companies as businesses have done extraordinarily well the last ten years--way better than people anticipated they would do. You really have American businesses earning close to something 20% on equity. And that is something nobody dreamed of and that is being produced by very large companies in aggregate. So you have had this huge revaluation upwards because of lower interest rates and much higher returns on capital. If America business is really a disguised bond that earns 20%, a 20% coupon it is much better than a bond with a 13% coupon. And that has happened with big companies in recent years, whether it is permanent or not is another question. I am skeptical of that. I wouldn't even think about it--except for questions of how much money we run--I wouldn't even think about the size of the business. See's Candy was a $25 million business when we bought it. If I can find one now, as big as we are, I would love to buy it. It is the certainty of it that counts.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

What is the definition of Value vs. Growth stocks?

No two distinct categories of business. PV of cash a company generates is what the business is worth. No distinction in our mind between growth & value. All decision you decide how much value you are going to get. When we buy a stock we think of it in terms of buying the whole enterprise.

Aesop's wrote the first investment primer "A bird in the hand (Lay out cash today) is worth two in the bush". Esop forgot to say when you get the two in the bush and what the interest rate was. People associate growth with the birds in the bush but they still have to figure out when they get the birds. People often are not thinking of the mathematics implicit in what they are doing.

[CM: All intelligent investing is value investing; then acquire more than you are paying for. Investing is where you find a few great companies and then sit on your ass.]

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

back to the questions.

From the partnership letters in 1964, you had a strategy called 'generals relatively undervalued.' We have recently begun to implement a technique where we buy something at 12x, when comps sell at 20x. Comps go to 10x. Is this pair trading?

Yes, we didn't know we started so early. Ben Graham did it in 1920. He did pair trading. He was right 4 out of 5, but the last one would kill him. We shorted the market to some degree. We would borrow stocks from universities. We were early in this. We wouldn't short a stock because it was unattractive but as a general market short [hedge]. I would borrow from the Treasurer of Columbia [University], "which ones do you want", "just give me all of them". It provoked some odd looks when I told the universities I wanted to short all of their stocks. It was not a big deal. We might have made a little money on it in the 1960s, but it is not something we do these days. If you have good long ideas on businesses that are undervalued, it is not necessary to short. 130/30 [simultaneously holding a 130% exposure to a long portfolio; and a 30% exposure to a short portfolio] is being marketed today. Many will sell you the idea of the day. No great statistical merit.

CM: We made our money by being long wonderful businesses, not by using a long-short strategy.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Importance of filtering out the noise?

[CM: Part of [having uncommon sense] is being able to tune out folly, as opposed to recognizing wisdom. If you bat away many things, you don't clutter yourself.]

People get frustrated because they start to pitch something to us and when they get halfway through the first sentence, we say we're not interested. We don't waste a lot of time on bad ideas.

When humans compete against computers in chess, how can human compete? The human eliminates 99% of possibilities without even thinking about it – they get right down to few possibilities that have any chance of success. They get rid of the nonsense.

When people call you with bad idea, don't be polite and waste 10 minutes.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

What is the benefit of being an out-of-towner as opposed to being on Wall Street?

I worked on Wall Street for a couple of years and I have my best friends on both coasts. I like seeing them. I get ideas when I go there. But the best way to think about investments is to be in a room with no one else and just think. And if that doesn't work, nothing else is going to work. The disadvantage of being in any type of market environment like Wall Street in the extreme is that you get over-stimulated. You think you have to do something every day. The Chandler family paid $2,000 for this company (Coke). You don't have to do much else if you pick one of those. And the trick then is not to do anything else. Even not to sell at 1919, which the family did later on. So what you are looking for is some way to get one good idea a year. And then ride it to its full potential and that is very hard to do in an environment where people are shouting prices back and forth every five minutes and shoving reports in front of your nose and all that. Wall Street makes its money on activity. You make your money on inactivity.

If everyone in this room trades their portfolio around every day with every other person, you will all end up broke. And the intermediary will end up with all the money. If you all own stock in a group of average businesses and just sit here for the next 50 years, you will end up with a fair amount of money and your broker will be broke. He is like the Doctor who gets paid on how often to get you to change pills. If he gave you one pill that cures you the rest of your life, he would make one sale, one transaction and that is it. But if he can convince you that changing pills every day is the way to great health, it will be great for him and the prescriptionists. You won't be any healthier and you will be a lot worse off financially. You want to stay away from any environment that stimulates activity. And Wall Street would have the effective of doing that.

When I went back to Omaha, I would go back with a whole list of companies I wanted to check out and I would get my money's worth out of those trips, but then I would go back to Omaha and think about it.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

There is always mention that some of your success could be attributed to not buying in to the Wall Street mania b/c you are in Omaha—what importance do you give to balance as it pertains to work and life and what do you do to maintain your appropriate balance?

I have so much fun that it's not work. I get to do what I want, where I want – on a boat, wherever. My wife was responsible for bringing up the children. Neither of us had problems with that arrangement, and it made sense from an Adam Smith "division of labor" perspective. It will be a much tougher choice for women, and always be somewhat unequal. In my own life I did virtually no social functions or meetings that I didn't want to do. In my adult business life I have never had to make a choice of trading between professional and personal. I have simple pleasures. I play bridge online for 12 hours a week. Bill and I play, he's "chalengr" and I'm "tbone".

After a talk at Harvard, I told them to work for who they admired the most, so they all become self-employed. It's important to go to work for someone or some organization you admire. I've not seen many males having to make tough choices. But women are the ones who have tough situations.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

There are a record number of 'value' investors here this year. Are there fewer $100 bills? Should I go to run a business instead of being a value fund manager?

WB: There will always $100 bills, but less at times. There are always conflicts. Asset gathering can be more important than asset managing. There will always be opportunities to outperform. People still make the same mistakes. Charlie has a company called the Daily Journal Company. I own 100 shares. I got their annual report, and in fiscal year 2009, they bought $15m of stock, and it is now worth $45m. They sat on cash for a long time, but opportunities come around. You have to be prepared to grab them. Definitely it is possible with moderate amounts of money. Charlie will be more pessimistic.

CM: Take the high road, it is far less crowded.

WB: Those who take the high road in Washington are seldom bothered with traffic.

WB: Money management – it is easy to scale up. It would have been harder for me to work as a plant manager. I wouldn't want to become superintendent right about the time they are going to give me a gold watch.

- *Source: BRK Annual Meeting 2010 Boodell Notes*

- *URL:*
- *Time: 2010*

back to the questions.

Do you ever change your investing standards?

Did we change our standards? You know, I don't think so, but you can't be 100% sure. If you haven't had a date for a month, you might say you wouldn't have dated that girl on the first day – but I think we would have.

It does not reflect our giving up on finding an elephant of a business to acquire. We have plenty of cash and could sell stocks if we really needed to. We're well prepared to acquire a very large business.

We acquired TTI in the first quarter, which is a terrific business. We wish it were five times bigger, but maybe some day it will be.

Munger: The one thing I think we can promise you is that we won't make the kinds of returns buying the things we are now that we earned on the stuff we bought 10-15 years ago. There's just too much money floating around.

Buffett: We won't come close.

Munger: It's a different world with more modest expectations.

Buffett: We hope you share them.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

Have there been instances in your career where you have been tempted to deviate from your strategy and if so, how did you handle that?

I'm not that type. I'm not disciplined. [BRK2003 - I'd feel more qualified to talk about self-discipline if I weighed about

20 pounds less.] I just naturally want to do things that make sense. In my personal life too, I don't care what other rich people are doing. I don't want a 405 foot boat just because someone else has a 400 foot boat. Some of my friends have big boats where 55 people are serving 14. Of those 55, some will be stealing from you, some will be sleeping with each other, and I just don't want to deal with that. My friends have the boats, so I'm the ultimate freeloader. I don't need multiple houses. If I wanted to do something wild & crazy I could do it, but Anna Nicole Smith is gone. Reminds me of the story of the 60 year old man that got a 25 year old to marry him. When his friends asked how he did it, he replied, "I told her I was 90."

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

When did you know you were rich?

I really knew I was rich when I had $10,000. I knew along time ago that I was going to be doing something I loved doing with people that I loved doing it with. In 1958, I had my dad take me out of the will, as I knew I would be rich anyway. I let my two sisters have all the estate.

I bet we all in this room live about the same. We eat about the same and sleep about the same. We pretty much drive a car for 10 years. All this stuff doesn't make it any different. I will watch the Super Bowl on a big screen television just like you. We are living the same life. I have two luxuries: I get to do what I want to do every day and I get to travel a lot faster than you.

You should do the job you love whether or not you are getting paid for it. Do the job you love. Know that the money will follow. I travel distances better than you do. The plane is nicer. But that is about the only thing that I do a whole lot different.

I didn't know my salary when I went to work for Graham until I got his first paycheck. Do what you love and don't even think about the money. I will take a trip on Paul Allen's Octopus

($400M yacht), but wouldn't want one for myself. A 60 man crew is needed. They could be stealing, sleeping with each other, etc. Professional sports teams are a hassle, especially when you have as much money as him. Fans would complain that you aren't spending enough when the team loses.

If there is a place that is warm in the winter and cool in the summer, and you do what you love doing, you will do fine. You're rich if you are working around people you like. You will make money if you are energetic and intelligent. This society lets smart people with drive earn a very good living. You will be no exception.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

[back to the questions.]

How important is conviction in investing?

You didn’t have to have a high IQ or a lot of investment smarts to buy junk bonds in 2002, or certain other things after Long-Term Capital Management blew up. You just had to have the courage of your convictions and the willingness to act when everyone else was terrified and paralyzed. The lesson of following logic rather than emotion is obvious, but some people can follow it and some can’t.

[CM: When we were young, there weren’t very many smart people in the investment world. You should have seen the people in the bank trust departments. Now, there are armies of smart people at private investment funds, etc. If there were a crisis now, there would be a lot more people with a lot of money ready to take advantage.]

But in 2002, there were all these people with lots of money [and the opportunities were still there].

[CM: When you have a huge convulsion, like a fire in this auditorium right now, you do get a lot of weird behavior. If you can be wise [during such times, you’ll profit].]

Three years ago, you could find a number of companies in [South] Korea with strong balance sheets trading at three times earnings.

[CM: But there was a huge convulsion there.] Buffett: But that was 4-5 years ago. It had already passed.

[CM: You couldn't name 20 more examples like it. [e.g., there are only a few examples in recent times of such weird behavior leading to huge, obvious bargains in entire asset classes.]]

Even if I could, I wouldn't! [Laughter]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

How do you avoid misjudgement?

WB said repeatedly that it doesn't take above a 125 IQ to do this…in fact, IQ over this amount is pretty much wasted. It's not really about IQ. - Staying within circle of competence is paramount - When you are within the circle, keep these things in mind:

- Don't get in a hurry
- You are better off not talking to others
- Just keep looking until you find something (don't give up)
- Good ideas come in clumps – by time, by sector, by asset class

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

[Avoiding Mental Mistakes]

The first step is to recognize the traps. Charlie, in Poor Charlie's Almanack, talks about various traps, so read that book.

Our personalities are such that we're probably less prone to falling into these traps, but it still happens – just less than before.

[CM: You don't have to have perfect wisdom to get very rich – just a bit better than average over a long period of time.]

It reminds me of the story about the two guys being chased by the bear and one guy says to the other, "I don't have to outrun the bear. I just have to outrun you!" (Laughter)

[CM: Peter Kaufman did it. He came up with the idea and Warren got excited about it. It's a ridiculous name [the title]. (Laughter)

If you assimilate everything that's in that simple book, you'll be far ahead in the game.]

It's a sensational book. You'll learn a whole lot about life – and making money.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[back to the questions.]

How do you improve independent thinking?

Good question. Very tough. Right now, I would pay a hundred-thousand dollars for 10 percent of the future earnings of any of you. So, if anyone wants to see me after this is over. If that's true, you're a million dollar asset right now, right? If ten percent of you is worth a hundred-thousand? You could improve on that, many of you, and I certainly could have when I got out, just in terms of learning communication skills.

It's not something that's taught, I actually went to a Dale Carnegie course later on in terms of public speaking. But if you improve your value 50 percent by having better communication skills, it's another 500-thousand dollars in terms of capital value. See me after the class and I'll pay you 150-thousand. You can dramatically increase your value by improving oral and written communication skills.

- *Source: Q&A with Reuwer*
- *URL:*
- *Time:*

When we were viewed as out of step a few years ago, I didn't care as long as I felt okay about how Berkshire was doing.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

What are the key traits needed to correct the crowd mentality?

CM: He wants to know how to become less like a lemming.

WB: I started investing when I was 11. I believe in reading everything in sight. I wandered around for 8 years with technical analysis. I read The Intelligent Investor, chapters 8 and 20 I recommend the most, and if you absorb it you won't be a lemming. I read it early in 1950, and I think it's as good a book now as then. You can't get a bad result if you follow it. The Intelligent Investor has three big lessons:

1. think of a stock as a part owner- ship of a business;
2. the market is there to serve you, not instruct you; and
3. always require a margin of safety. Berkshire shareholders are better than most at understanding that they own a part of a business.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Don't you have a lot of competition to buy great businesses? For example, from private equity funds?

You are absolutely correct that the private equity funds are a form of competition for Berkshire. Stocks sometimes trade well below intrinsic value, but businesses are sold in a negotiated transaction, so pricing doesn't get as extreme. But our strong preference is to buy entire businesses at a fair price rather than stocks, even if stocks [can be acquired] a bit cheaper.

If someone wants what we are offering, we are pretty much one-of-a-kind. People can sell their company to us, yet continue to run it as they please as long as they want. So, if someone needs liquidity for tax or inheritance or other reasons, but doesn't want to auction their business off like a piece of meat, they can come to us and they know they'll get the response they want. We don't get super bargains this way, but it allows us to put money to work at a sensible price.

Acquisitions don't come along every day.

If I owned a business that my father had started and wanted to monetize it, I would sell to Berkshire because I wouldn't want to split it up to auction it off, just as it would be silly to auction your daughter off to the man who bids the most.

There is no-one else who can make the promises we can make [not to ever sell the acquired company]. Most big companies can't do that because what if the board decides it wants a pure play? I tell sellers that I'm the only one who can double cross you – nobody else can. We don't have consultants or Wall Street advisors.

But, yes, we do have a lot of competition.

[CM: We've had private equity competitors for a long time, but one way or another we've managed to buy quite a few things.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

We are positioned very badly in terms of buying businesses. Berkshire will not do as well as long as this persists.

[CM: A lot of buying is fee motivated. Managers want to earn the extra fees on the extra assets. I have a friend who buys warehouses, but he stopped bidding recently because he's always being outbid. Howard Marks sent a lot of money back to investors, which is the right way to behave [I assume he's referring to one of the Principals of Oaktree Capital Management]]

Five or six years ago, I got a call from a well-known investor who asked me a lot of questions about reinsurance. He didn't know much about the business, but he was considering buying a reinsurance company because, as he explained to me, he would have to send his investors' money back to them if he didn't invest it in the next few months, and he was earning 2% [annually] on it.

We [unlike this gentleman] have all of our net worth on the downside as well. If we have 2 and 20 [2% management fee and a 20% performance allocation] on the upside and nothing but a goodbye kiss on the downside…

The competition right now is tough, so our efforts to buy businesses are likely to be futile. But there are 1-2 deals we might get done…

[CM: I don't think there's any business that we've bought that would have sold itself to a hedge fund. There's a class of businesses that doesn't want to deal with private-equity and hedge funds…thank God. (Laughter)]

We don't see any deals [recently] that we wish we'd made – this wasn't true in the past – even if the price had been 10% lower. We're in a different world right now.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

There's no doubt that there's far more money looking a deals now than in the past. They're willing to pay up to buy good but mundane businesses that we've historically bought and had success with. Now it's not just private equity funds getting in – hedge funds are too.

There's been a bit of a change in the past few weeks, as it's gotten a little harder to borrow money, but overall, we can't compete, which makes us feel distress.

But it won't go on forever. In the near term, we are not positioned favorably at all, but you'd be amazed at just how fast things can change. Things happen to change the landscape. At least three times in my career, there's been so much money sloshing around. It was so bad in 1969 that I closed my partnership. But only four years later, it was the best time to be a buyer in my entire life.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[Re: Closed-End Funds]

History shows that over time, almost all closed-end funds go to discounts. Initially, if they're sold with a 6% commission, the initial people only get 94 cents on the dollar. If I could buy an open fund at X or a closed-end fund at 120% of X, then you'd have to convince me that the management is something special to buy the closed-end fund.

Occasionally, Charlie and I have seen closed-end funds that trade at a premium for a long time. Eventually they will come back down to earth.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Q - Is the private-equity boom a bubble?]

We're competing with those people, so I started to cry, thinking about the difficulty of finding things to buy.

Due to the nature of private equity, it's not a bubble that will burst. They lock up their money for 5-10 years and buy businesses that don't price daily. It takes many years for the score to be put on the board and the investors can't leave. It's not like leverage in marketable securities.

What would slow it down is if the spread between high-yield bonds and safe bonds widens. This would slow down deals, but won't cause investors to get their money back.

There's another factor: if you have a $20 billion fund and get a 2% fee, you're getting $400M a year. But you can't raise another fund with a straight face until you've invested it, so there's a great compulsion to invest it quickly so you can raise another fund and get more fees.

We can’t compete against these buyers. We buy forever and it’s our own money. I think it will be quite some time before disillusion sets in [among the investors in private-equity funds].

Munger: It can continue to go on for a long time after you’re in a state of total revulsion. [Laugher]

Buffett: The voice of total optimism has spoken. [More laughter]

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

How do you learn who to trust and who not to trust?

I get letters all the time from people who have been taken advantage of in financial transactions. It’s sad. A lot isn’t fraud – just the frictional costs and the baloney. Charlie and I have had very good luck buying businesses and putting our trust in people – it’s been overwhelmingly good, but we filter out a lot of people. People give themselves away and maybe it’s an advantage being around awhile and seeing how people give themselves away by what they talk about and what’s important and not important to them. We’ve had a batting average I wouldn’t have thought we’d have. We haven’t batted 100%, but it’s above 90%.

Munger: We’re deeply suspicious if the proposition sounds too good to be true. I recall a deal that was pitched to us by someone who said the company only wrote fire insurance on concrete bridges covered by water. It’s like taking candy from a baby. [Laughter] We stay away from businesses like that.

Buffett: When they make certain kinds of comments, what they laugh about, if they say “it’s so easy.” It’s not so easy. We rule out people 90% of the time. Maybe we’re wrong sometimes, but what’s important is the ones we let in. In the 1970s when I referred my clients to three people [as he closed down the Buffett Partnership], when I thought who they should turn over 100% of their money to, there were hundreds of people with great records. I recommended

Charlie, Sandy Gottesman and Bill Ruane. I couldn't have told you which of the three would be the best, but the one thing I was sure of was that they were going to be sensational stewards of money and do what was right for clients rather then try to make 2x in commissions in a given year. Anytime someone who takes what I think is an unfair fee structure because they can get it, I rule them out.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

What's your philosophy on partnering with others?

We normally don't want to do deals with partners. If we like a deal, we want to do it all. We have a lot of money, so we don't need a money partner. As for a knowledge partner, we don't want to do a deal where we're relying on someone else. We've made a few exceptions, but very few. Charlie, can you think of any?

Munger: You did something with Leucadia, but they brought us the deal. [Click here for an article about this deal.]

Buffett: That's right. They were great. But they invited us to participate in their deal. We came in on the same terms they had. In general, we don't partner with others on deals, but I'd do another deal with Leucadia if they came to me and I liked the deal. That was a very good experience.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

We know that you are a big bridge player. Do you think that bridge correlates to investing? Are there any traits or characteristics that might carry over from one to the other?

Bridge is the best game there is. You're drawing inferences from every bid and play of a card, and every card that is or isn't played. It teaches you about partnership and other human skills. In bridge, you draw inferences from everything and that carries over well into investing. In bridge, similar to in life, you'll never get the same hand twice but the past does have a meaning. The past does not make the future definitive but you can draw from those experiences. I think the partnership aspect of bridge is a great lesson for life. If I'm going into battle, I want to partner with the best. I was playing with a world champion and we were playing against my sister and her husband. We lost, so I took the scorepad and I ate it.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

Valuation

How do you think about value?

The formula for value was handed down from 600 BC by a guy named Aesop. A bird in the hand is worth two in the bush. Investing is about laying out a bird now to get two or more out of the bush. The keys are to only look at the bushes you like and identify how long it will take to get them out. When interest rates are 20%, you need to get it out right now. When rates are 1%, you have 10 years. Think about what the asset will produce. Look at the asset, not the beta. I don't really care about volatility. Stock price is not that important to me, it just gives you the opportunity to buy at a great price. I don't care if they close the NYSE for 5 years. I care more about the business than I do about events. I care about if there's price flexibility and whether the company can gain more market share. I care about people drinking more Coke.

I bought a farm from the FDIC 20 years ago for $600 per acre. Now I don't know anything about farming but my son does. I asked him, how much it cost to buy corn, plow the field, harvest, how much an acre will yield, what price to expect. I haven't gotten a quote on that farm in 20 years.

If I were running a business school I would only have 2 courses. The first would obviously be an investing class about how to value a business. The second would be how to think about the stock market and how to deal with the volatility. The stock market is funny. You have no compulsion to act and a bunch of silly people setting prices all the time, it is great odds. I want the market to be like a manic depressive drunk. Graham's Ch. 8, in the book Intelligent Investor, on Mr. Market is the most important thing I have ever read. Now think about the NYSE. You have thousands of companies to choose from. For me, that universe has shrunk because I need to put large dollar amounts to work. Attitude is much more important than IQ. You can really get into trouble with a high IQ, i.e. Long-Term Capital. You need to have the right philosophical temperament.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

How do you calculate intrinsic value?

Intrinsic value is terribly important but very fuzzy. We try to work with businesses where we have fairly high probability of knowing what the future will hold. If you own a gas pipeline, not much is going to go wrong. Maybe a competitor enters forcing you to cut prices, but intrinsic value hasn't gone down if you already factored this in. We looked at a pipeline recently that we think will come under pressure from other ways of delivering gas [to the area the pipeline serves]. We look at this differently from another pipeline that has the lowest costs [and does not face threats from alternative pipelines]. If you calculate intrinsic value properly, you factor in things like declining prices.

When we buy business, we try to look out and estimate the cash it will generate and compare it to the purchase price. We have to feel pretty good about our projections and then have a purchase price that makes sense. Over time, we've had more pleasant surprises than we would have expected.

I've never seen an investment banker's book in which future earnings are projected to go down. But many businesses' earnings go down. We made this mistake with Dexter shoes -- it was earning $40 million pretax and I projected this would continue, and I couldn't have been more wrong.

20% of Fortune 500 companies will be earning significant less in five years, but I don't know which 20%. If you can't come up with reasonable estimates for that, then you move on.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[back to the questions.]

What do you believe to be the most important tools in determining intrinsic value? What rules or standards do you apply when using these tools?

If we could see in looking at any business what its future cash flows would be for the next 100 years, and discount that back at an appropriate interest rate, that would give us a number for intrinsic value. It would be like looking at a bond that had a bunch of coupons on it that was due in a hundred years ... Businesses have coupons too, the only problem is that they're not printed on the instrument and it's up to the investor to try to estimate what those coupons are going to be over time. In high-tech businesses, or something like that, we don't have the faintest idea what the coupons are going to be. In the businesses where we think we can understand them reasonably well, we are trying to print the coupons out. If you attempt to assess intrinsic value, it all relates to cash flow. The only reason to put cash into any kind of investment now is that you expect to take cash out--not by selling it to somebody else, that's just a game of who beats who--but by the asset itself ... If you're an investor, you're looking on what the asset is going to do, if you're a speculator, you're commonly focusing on what the price of the object is going to do, and that's not our game. We feel that if we're right about the business, we're going to make a lot of money, and if we're wrong about the business, we don't have any hopes of making money.

[CM: I would argue that one filter that's useful in investing is the idea of opportunity costs. If you have one idea that's available in large quantity that's better that 98% of the other opportunities, then you can just screen out the other 98% ... With this attitude you get a concentrated portfolio, which we don't mind. That practice of ours which is so simple is not widely copied, I don't know why. Even at great universities and intellectual institutions. It's an interesting question: If we're right, why are so many other places so wrong.]

There are several possible answers to that question! (laughter) The first question we ask ourselves is, would we rather own this business than more Coca-Cola, than more Gillette .... We will want companies where the certainty gets close to that, or we would figure we'd be better off buying more Coke. If every management, before they bought a business, said is this better than buying in our own stock or even buying Coca-Cola stock, there'd be a lot less deals done. We try to measure against what we regard as close to perfection as we can get.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

Could you comment on the matter of intrinsic value as it applies to some of the Inevitables?

Well, we won't stick a price on it. They are absolutely wonderful businesses run by sensational people, and they are selling at prices that are higher than they've sold at most of the time. But they may well be worth it, either in present terms, or they may be a couple of years ahead of themselves. Gillette doesn't repurchase their shares ... Coke consistently repurchases their shares. We generally like the policy of companies that have really wonderful businesses repurchasing their shares. The problem with most companies repurchasing their shares is that they are frequently so-so businesses and they are repurchasing shares for purposes other than intensifying the interest of shareholders in a wonderful business. It's hard to do things intelligently with money in this world and Coke has been very intelligent about using their capital, particularly to fortify and develop their bottler network around the world, but there's only so far you can go with that, and to enhance the ownership of shareholders in a company like Coca-Cola [is great].

The bottling is actually kind of interesting ... Asa Canver back in the late 1880's essentially bought the whole Coca-Cola company for $2,000, and that may be the smartest purchase in the history of the world. Then in 1889, a couple of guys from Chattanooga came along, and in those days soft drinks were sold over the counter, and they said bottling's got a future and you're busy with the pump side of the business, so why don't you let us develop the bottling side of the business. And I guess Mr. Canver didn't think much of bottling, so he gave them a contract that gave them the rights, in perpetuity for almost all of the United States, and gave them the right to buy Coca-Cola syrup at a fixed price forever. (audience groans) So Asa, who had scored with his $2,000 in a major way, seems to have made one of the dumbest contracts in history.

And the Coca-Cola company was faced over the years with the problem of having this bottling system which soon became the dominant system of distribution for Coke, being subject to a contract where there was no price flexibility and where the contract ran for perpetuity. And of course every bottler on his deathbed would call his children and grandchildren around, and he would prop himself up, and he would croak out in his last breath, "Don't let 'em screw with the bottling contract." (laughter)

So the Coca-Cola company faced this for decades, and they couldn't really do anything about the bottling system for a long time, and Roberto and Don Keough and some other people spent 20, 25 years getting that rationalized ...it was a huge, huge project, but it made an enormous difference over time, and that's what I mean when I talk about intellectual capital. You know you're not going to get results on that in a day or a month or a year, but they decided that to get the job done they had to do this, and they used capital to get that job done, but they used capital beyond that to repurchase shares, and it's been very smart, and they're probably repurchasing shares even as we talk.

[CM: I do think the Coca-Cola company is one of the most interesting cases in the history of business, and it ought to be way more studied than it is. There's just lesson after lesson after lesson in the history of the Coca-Cola company. But it's too long a story for today.]

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

[back to the questions.]

When you estimate intrinsic value in capital intensive companies like McDonald's and Walgreens where a very healthy and growing operating cash flow is largely offset by expenditures for new stores, restaurants, etc how do you estimate future free cash flow? And at what rate do you discount those cash flows?

We use the same discount rate across all securities. We may be more conservative in estimating cash in some situations.

Just because interest rates are at 1.5% doesn't mean we like an investment that yields 2-3%. We have minimum thresholds in our mind that are a whole lot higher than government rates. When we're looking at a business, we're looking at holding it forever, so we don't assume rates will always be this low.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

We don’t formally have discount rates. Every time we start talking about this, Charlie reminds me that I’ve never prepared a spreadsheet, but I do in my mind.

We just try to buy things that we’ll earn more from than a government bond – the question is, how much higher? If government bonds are at 2%, we’re not going to buy a business that will return 4%.

I don’t call Charlie every day and ask him, “What’s our hurdle rate?” We’ve never used the term.

Munger: The concept of a hurdle rate makes nothing but sense, but a lot of people using this make terrible errors. I don't think there's any substitute for thinking about a whole lot of investment options and thinking about the returns from each.

The trouble isn't that we don't have one [a hurdle rate] – we sort of do – but it interferes with logical comparison. If I know I have something that yields 8% for sure, and something else came along at 7%, I'd reject it instantly. It's like the mail-order-bride firm offering a bride who has AIDS – I don't need to waste a moment considering it. Everything is a function of opportunity cost.

Buffett: I've been on 19 boards and seen a zillion presentations projecting a certain IRR [internal rate of return]. If the boards had burned them all, they'd have been better off. The IRR is based on what the CEO wants. The numbers are made up.

Munger: I have a young friend who sells private partnership interests to investors, and it's hard to get returns in that field. I asked him, "What returns do you tell them you can get?" He said "20%." I said, "How did you come up with that number?" He said, "If I told them anything lower, they wouldn't give me the money."

Buffett: There's no one in the world who can earn 20% on big money. It's amazing how gullible pension funds and other investors are. They want it so badly that they'll believe even total nonsense.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

Is the skill of judging risk just as important as calculating intrinsic value?

We perceive risk as items that impair future business. Wants to have mathematical risk on their side over a group of decisions. Not in the business of assuming a lot of risk in business. We look for moats around businesses. We look for castles (businesses) that have a moat surrounding it which is expanding as a primary consideration of a great business.

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

back to the questions.

What valuation metrics do you use?

The appropriate multiple for a business compared to the S&P 500 depends on its return on equity and return on incremental invested capital. I wouldn't look at a single valuation metric like relative P/E ratio. I don't think price-to-earnings, price-to-book or price-to-sales ratios tell you very much. People want a formula, but it's not that easy. To value something, you simply have to take its free cash flows from now until kingdom come and then discount them back to the present using an appropriate discount rate. All cash is equal. You just need to evaluate a business's economic characteristics.

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

back to the questions.

What do you think of the use of book values in making investment decisions?

Book value is virtually not a consideration in investment decision-making at Berkshire. Their pursuit of high return businesses usually leads to companies with minimal book values. He added that the book value approach could work well with small sums of money, like Graham had managed, and that the approach had worked well for Graham-type practitioners like Buffett’s friend Walter Schloss. The three most important concepts conveyed by Graham in “The Intelligent Investor” were the investor’s attitude toward the market, the “margin of safety”, and the practice of looking at companies as businesses, not stocks.

Munger proffered that “projections generally do more harm than good, and are usually prepared by persons who have some sort of an interest in the outcome of actions based on the projections. They often have a precision that□'s deceptive.□" Buffett added that they□'ve never looked at a projection in connection with an equity or business that they□'ve acquired. □"It□'s a ritual to justify doing what an executive or a board wanted to do in the first place.□

- *Source: BRK Annual Meeting 1995*
- *URL:*
- *Time: 1995*

We have a bias toward investing in the U.S., but I bought my first stock outside the United States at least 50 years ago and we've looked at plenty of marketable securities overseas. It would make no difference to us if Coke was headquartered in Amsterdam.

But nobody outside the U.S. has heard of us. Eitan Wertheimer found us. The Iscar acquisition has contributed to our becoming better known. Eitan is going through a procedure to get us better known abroad. [Buffett did not give any details about this "procedure".]

I haven't done a good selling job abroad. We could be fairly criticized for not doing enough to become better known [overseas].

We own stocks in Germany and 4% of POSCO, which is based in South Korea – it's now worth over $1 billion. I can think of a half dozen investments [we currently have] outside the U.S. We don't have to report them in our [SEC Form] 13F, so they don't get picked up like our domestic investments.

We have to report our holdings in Germany once we reach 3% ownership. So if we buy a $10 billion [market-cap] company, that means once we buy $300 million worth we have to tell the world, and Charlie and I don't like doing that. It screws up our future buying, so the 3% rule is a real minus.

I can assure you that the entire world is on our radar screen and we hope to be on its radar screen.

Munger: John Templeton made a fortune being in Japan very early and stocks there went to 30-40x earnings. It was an admirable piece of investment, but you know, we did alright during the same period. [Laughter]

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

If you can't talk with management, and can't read the annual report, and didn't know the price, but could only look at the financial statements, what metric would you look at?

WB: Investing is laying out money now to get more money later on. Let's leave the market price out. If you were buying a farm, you would think about bushels per acre — you are looking to the asset itself. Ask yourself: do I understand enough about the business so that the financials will be able to tell me meaningful things that will help me to foresee the statements in the future? I have bought stocks the way you describe. They were in businesses I understood, and if I could buy at 40% of X, I'd be okay with the margin of safety. If you don't tell me the nature of the business, financial statements won't tell me much. We've bought many securities, and with most, we've never met management. We use our general understanding of business and look to specifics from financial statements.

CM: One metric catches people. We prefer businesses that drown in cash. An example of a different business is construction equipment. You work hard all year and there is your profit sitting in the yard. We avoid businesses like that. We prefer those that can write us a check at the end of the year.

WB: We could value an apartment if we knew where the apartment is, and we know the monthly checks. I have bought a lot of things off the financials. There is a lot I wouldn't buy even if it had the best management in the world, as it doesn't make much difference in a bad business.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

How do you think about growth rates when you value businesses?

When the [long-term] growth rate is higher than the discount rate, then [mathematically] the value is infinity. This is the St. Petersburg Paradox, written about by Durand 30 years ago. [Click here for a copy of the original 1957 article. For more on this topic, I recommend Integrating the Outliers: Two Lessons from the St. Petersburg Paradox, by CSFB's (now Legg Mason's) Michael Mauboussin.]

Some managements think this [that the value of their company is infinite]. It gets very dangerous to assume high growth rates to infinity – that's where people get into a lot of trouble. The idea of projecting extremely high growth rates for a long period of time has cost investors an awful lot of money. Go look at top companies 50 years ago: how many have grown at 10% for a long time? And [those that have grown] 15% is very rarified.

Charlie and I are rarely willing to project high growth rates. Maybe we're wrong sometimes and that costs us, but we like to be conservative.

[CM: If your growth rate is so high that you conclude the business has an infinite valuation, you have to use more realistic numbers. What else could anyone do?]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

How to Think About Businesses

What's your philosophy in buying businesses?

- The first question I ask is: "Does the owner love the business or does he/she love the money?" It's very easy to tell the difference.
- I am proud to be able to provide a good home for many businesses. It is like finding a home for a painting. Business owners who are looking to sell can either sell their businesses to Berkshire (like putting painting in

the Metropolitan Museum of Art) or sell to an LBO and let them tear it up, dress up the accounting, and resell it (like selling a painting to a porn shop).

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

It's a question of being able to identify businesses that you understand and you are very certain about. If you understand those businesses, and many people do, but Charlie and I don't, then you have the opportunity to evaluate them. If you decide they're fairly priced and they have marvellous prospects, you're going to do very well. But there's a whole group of companies--a very large group of companies--that Charlie and I just don't know how to value. And that doesn't bother us. I mean, we don't know how to figure out what cocoa beans are going to do, or the Russian ruble--there's all kinds of financial instruments that we just don't feel we have the knowledge to evaluate. It might be a bit too much to expect somebody would understand every business in the world. We find some that are much harder for us to understand. When I say understand--my definition of understand is that you have to have a pretty good idea of where it's going to be in ten years. I just can't get that conviction with a lot of businesses, whereas I can get them with relatively few. But I only need a few--six or eight, as you pointed out, or something like that. It would be better for you--it certainly would have been better for you if we had had the insights about what we regard as the more complicated businesses you describe--because there was and may still be a chance to make a whole lot more money if those growth rates that you describe are maintained. I don't think you'll find better managers than Andy Grove at Intel or Bill Gates at Microsoft and they certainly seem to have fantastic positions in the businesses they're in, but I don't know enough about those businesses to be sure that those businesses are fantastic as I am about being sure that Gillette and Coca-Cola's businesses are fantastic. You may understand those businesses better than you understand Coke and Gillette because of your background or just the way your mind is wired. But I don't, and therefore I have to stick with what I really think I can understand.

- *Source: BRK Annual Meeting*
- *URL:*
- *Time: May 1997*

We favor businesses where we really think we know the answer. If we think the business's competitive position is shaky, we won't try to compensate with price. We want to buy a great business, defined as having a high return on capital for a long period of time, where we think management will treat us right. We like to buy at 40 cents on the dollar, but will pay a lot closer to $1 on the dollar for a great business.

If we see someone who weighs 300 pounds or 320 pounds, it doesn't matter – we know they're fat. We look for fat businesses.

We don't get paid for the past, only the future [profitability of a business]. The past is only useful to give you insights into the future, but sometimes there's no insight. At times, we've been able to buy businesses at one quarter of what they're worth, but we haven't seen that recently [pause] except South Korea.

Munger: Margin of safety means getting more value than you're paying. There are many ways to get value. It's high school algebra; if you can't do this, then don't invest.

Munger: When you're trying to determine intrinsic value and margin of safety, there's no one easy method that can simply be mechanically applied by a computer that will make someone who pushes the buttons rich. You have to apply a lot of models. I don't think you can become a great investor rapidly, no more than you can become a bone-tumor pathologist quickly.

Buffett: Let's say you decide you want to buy a farm and you make calculations that you can make $70/acre as the owner. How much will you pay [per acre for that farm]? Do you assume agriculture will get better so you can increase yields? Do you assume prices will go up? You might decide you wanted a 7% return, so you'd pay $1,000/acre. If it's for sale at $800, you buy, but if it's at $1,200, you don't.

Buffett: If you're going to buy a farm, you'd say, "I bought it to earn $X growing soybeans." It wouldn't be based on what you saw on TV or what a friend said. It's the same with stocks. Take out a yellow pad and say, "If I'm going to buy GM at $30, it has 600 million shares, so I'm paying $18 billion," and answer the question, why? If you can't answer that, you're not subjecting it to business tests.

We have to understand the competitive position and dynamics of the business and look out into the future. With some businesses, you can't. The math of investing was set out by Aesop in 600 BC: a bird in the hand is worth two in the bush. We ask ourselves how certain we are about birds in the bush. Are there really two? Might there be more? We simply choose which bushes we want to buy from in the future.

The ability to generate cash and reinvest it is critical. It's the ability to generate cash that gives Berkshire value. We choose to retain it because [we think we can reinvest each dollar to generate more than $1 of value].

If you were thinking about paying $900,000 or $1.3 million for a McDonald's stand, you'd think about things like whether people will keep eating hamburgers and whether McDonald's could change the franchise agreement. You have to know what you're doing and whether you're within your circle of competence.

Munger: We have no system for estimating the correct value of all businesses. We put almost all in the "too hard" pile and sift through a few easy ones.

Buffett: We know how to recognize and step over one-foot bars and recognize and avoid seven-foot bars.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

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What is the ideal business?

The ideal business is one that generates very high returns on capital and can invest that capital back into the business at equally high rates. Imagine a $100 million business that earns 20% in one year, reinvests the $20 million profit and in the next year earns 20% of $120 million and so forth. But there are very very few businesses like this. Coke has high returns on capital, but incremental capital doesn't earn anything like its current returns. We love businesses that can earn high rates on even more capital than it earns. Most of our businesses generate lots of money, but can't generate high returns on incremental capital -- for example, See's and Buffalo News. We look for them [areas to wisely reinvest capital], but they don't exist.

So, what we do is take money and move it around into other businesses. The newspaper business earned great returns but not on incremental capital. But the people in the industry only knew how to reinvest it [so they squandered a lot of capital]. But our structure allows us to take excess capital and invest it elsewhere, wherever it makes the most sense. It's an enormous advantage.

See's has produced $1 billion pre-tax for us over time. If we'd deployed that in the candy business, the returns would have been terrible, but instead we took the money out of the business and redeployed it elsewhere. Look at the results!

[CM: There are two kinds of businesses: The first earns 12%, and you can take it out at the end of the year. The second earns 12%, but all the excess cash must be reinvested -- there's never any cash. It reminds me of the guy who looks at all of his equipment and says, "There's all of my profit." We hate that kind of business.]

We like to be able to move cash around and find it's best use. We'd love to have our companies redeploy cash, but they can't. Gillette has a great business, but can't sensibly reinvest all of the profit.

We don't think the batting average of American industry redeploying capital has been very great. We knock other people doing what has made us so successful.

[CM: I'm uncomfortable with that, which is why we say negative things [to discourage others from trying to do what we do]].

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

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What makes a great business?

The best businesses can maintain their earnings without continued reinvestment, whereas in the worst you have to keep pouring money into a money-losing business.

The best business is being the best surgeon in town. You don't have to do any reinvestment – the investment was the education. The surgeon will retain his earnings power, regardless of inflation.

[Untapped pricing power. The measure of a great business.]

We like buying businesses with some untapped pricing power. For example, when we bought See's for $25 million, I asked myself, "If we raised prices by 10 cents per pound, would sales fall off a cliff?" The answer was obviously no. You can determine the strength of a business over time by the amount of agony they go through in raising prices.

A good example is newspapers. The local daily paper controlled the market and every year they raised the [advertising] rates and circulation prices – it was almost a big yawn. They didn't worry about losing big advertisers like Sears, JC Penney or Wal-Mart, or losing subscribers. They increased prices whether the price of newsprint went up or down.

Now, they agonize over price increases because they worry about driving people to other mediums. That world has changed.

You can learn a lot about the durable economics of a business by watching price behavior. The beer industry is able to raise prices, but it's getting tougher.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

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When you are looking at a business in which to invest, what are your priorities?

You have to really understand the economics of a business and the kind of people you are getting into business with. They have to love their business. They have to feel that they have been creative, that it is their painting, I am not going to disturb it, just give them more canvas and more brushes, but its their painting, from our standpoint any way. The whole place will reflect the attitude of the person at the top, if you have someone at the top who doesn't care, the people down below won't care. On the other hand, if you have someone at the top who cares a great deal, that will be evident across the organization. [The type of people managing the business is a very important criteria, then?] Yes, contracts don't protect you; you have to have confidence in the people.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

We want a business that we think, if run well, is going to have a competitive advantage. We don't buy hula hoop or pet rock companies, or companies with explosions in demand but we don't know who the winners will be.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

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What makes a company something that you like?

I like businesses that I can understand. Let's start with that. That narrows it down by 90%. There are all types of things I don't understand, but fortunately, there is enough I do understand. You have this big wide world out there and almost every company is publicly owned. So you have all American business practically available to you. So it makes sense to go with things you can understand.

I can understand this, anyone can understand this (Buffett holds up a bottle of Coca-Cola). Since 1886, it is a simple business, but it is not an easy business—I don't want an easy business for competitors. I want a business with a moat around it. I want a very valuable castle in the middle and then I want the Duke who is in charge of that castle to be very honest and hard working and able. Then I want a moat around that castle. The moat can be various things: The moat around our auto insurance business, Geico, is low cost.

People have to buy auto insurance so everyone is going to have one auto insurance policy per car basically. I can't sell them 20, but they have to buy one. I can sell them 1. What are they going to buy it on? (based on what criteria?) They (customers) will buy based on service and cost. Most people will assume the service is identical among companies or close enough. So they will do it on cost. So I have to be a low cost producer--that is my moat. To the extent that my costs are further below the other guy, I have thrown a couple of sharks into the moat. All the time you have this wonderful castle, there are people out there who are going to attack it and try to take it away from you. I want a castle I can understand, but I want a castle with a moat around it.

30 years ago, Eastman Kodak's moat was just as wide as Coca-Cola's moat. I mean if you were going to take a picture of your six-month old baby and you want to look at that picture 20 years from now or 50 years from now. And you are never going to get a chance—you are not a professional photographer—so you can evaluate what is going to look good 20 or 50 years ago. What is in your mind about that photography company (Share of Mind) is what counts. Because they are promising you that the picture you take today is going to be terrific 20 to 50 years from now about something that is very important to you. Well, Kodak had that in spades 30 years ago, they owned that. They had what I call share of mind. Forget about share of market, share of mind. They had something—that little yellow box—that said Kodak is the best. That is priceless. They have lost some of that. They haven't lost it all.

It is not due to George Fisher. George is doing a great job, but they let that moat narrow. They let Fuji come and start narrowing the moat in various ways. They let them get into the Olympics and take away that special aspect that only Kodak was fit to photograph the Olympics. So Fuji gets there and immediately in people's minds, Fuji becomes more into parity with Kodak.

You haven't seen that with Coke; Coke's moat is wider now than it was 30 years ago. You can't see the moat day by day but every time the infrastructure that gets built in some country that isn't yet profitable for Coke that will be 20 years from now. The moat is widening a little bit. Things are, all the time, changing a little in one direction or the other. Ten years from now, you will see the difference. Our managers of the businesses we run, I have one message to them, and we want to widen the moat. We want to throw crocs, sharks and gators —I guess—into the moat to keep away competitors. That comes about through service, through quality of product, it comes about through cost, some times through patents, and/or real estate location. So that is the business I am looking for.

Now what kind of businesses am I going to find like that? Well, I am going to find them in simple products because I am not going to be able to figure what the moat is going to look like for Oracle, Lotus or Microsoft, ten years from now. Gates is the best businessman I have ever run into and they have a hell of a position, but I really don't know what that business is going to look like ten years from now. I certainly don't know what his competitors will look like ten years from now. I know what the chewing business will look like ten years from now. The Internet is not going to change how we chew gum and nothing much else is going to change how we chew gum. There will lots of new products. Is Spearmint or Juicy Fruit going to evaporate? It isn't going to happen. You give me a billion dollars and tell me to go into the chewing gum business and try to make a real dent in Wrigley's. I can't do it. That is how I think about businesses. I say to myself, give me a billion dollars and how much can I hurt the guy? Give me $10 billion dollars and how much can I hurt Coca-Cola around the world? I can't do it. Those are good businesses.

Now give me some money and tell me to hurt somebody in some other fields, and I can figure out how to do it.

So I want a simple business, easy to understand, great economics now, honest and able management, and then I can see about in a general way where they will be ten (10) years from now. If I can't see where they will be ten years from now, I don't want to buy it. Basically, I don't want to buy any stock where if they close the NYSE tomorrow for five years, I won't be happy owning it. I buy a farm and I don't get a quote on it for five years and I am happy if the farm does OK. I buy an apartment house and don't get a quote on it for five years, I am happy if the apartment house produces the returns that I expect. People buy a stock and they look at the price next morning and they decide to see if they are doing well or not doing well. It is crazy. They are buying a piece of the business. That is what Graham—the most fundamental part of what he taught me.

You are not buying a stock, you are buying part ownership in a business. You will do well if the business does well, if you didn't pay a totally silly price. That is what it is all about. You ought to buy businesses you understand. Just like if you buy farms, you ought to buy farms you understand. It is not complicated.

Incidentally, by the way, in calling this Graham-Buffett, this is pure Graham. I was very fortunate. I picked up his book (The Intelligent Investor) when I was nineteen; I got interested in stocks when I was 6 or 7. I bought my first stock when I was eleven. But I was playing around with all this stuff—I had charts and volume and I was making all types of technical calculations and everything. Then I picked up a little book that said you are not just buying some little ticker symbol, that bounces around every day, you are buying part of a business. Soon as I started thinking about it that way, everything else followed. It is very simple. So we buy businesses we think we can understand. There is no one here who can't understand Coke.

If I was teaching a class at business school, on the final exam I would pass out the information on an Internet company and ask each student to value it. Anybody that gave me an answer, I'd flunk (Laughter). I don't know how to do it. But people do it all the time; it is more exciting. If you look at it like you are going to the races--that is a different thing--but if you are investing.... Investing is putting out money to be sure of getting more back later at an appropriate rate. And to do that you have to understand what you are doing at any time. You have to understand the business. You can understand some businesses but not all businesses.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

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What types of businesses have the highest ROIC?

WB: You could run Coca-Cola with no capital. There are a number of businesses that operate on negative capital. Great magazines operate with negative capital. Subscriptions are paid upfront, they have limited fixed investments. There are certain businesses like this. Blue Chip Stamps - it got float ahead of time. There are a lot of great businesses. Apple doesn't need very much capital. See's needs little capital but it can't get that large -- we can't get people eating 10 lbs of boxed chocolate every day. Great consumer businesses need relatively little capital. Where people pay you in advance (magazines, insurance), you are using your customers' capital. But the rest of the world knows this and they get expensive. It can be competitive to buy them. Business Wire – it doesn't require capital. Many service businesses require little capital. When successful, they can be something.

CM: Nothing to add, the formula never changes.

WB: If you could own one business in the world, what would it be?

CM: You and I got in trouble many decades ago for this, naming the most fabulous business. High pricing power, a monopoly – we don't want to name it publicly!

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

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What businesses should we avoid?

In the textile industry, we always had new machinery that held the promise of increasing our profit, but it never did because everyone else bought the same machinery. It was sort of like being in a crowd, and everyone stands on tip-toes – your view doesn't improve, but your legs hurt.

- *Source: BRK Annual Meeting 2004 Tilson Notes*

- *URL:*
- *Time: 2004*

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What have been your business mistakes?

How much time do you have? The interesting thing about investments for me and my partner, Charlie Munger, the biggest mistakes have not been mistakes of commission, but of omission. They are where we knew enough about the business to do something and where, for one reason or another, sat they're sucking out thumbs instead of doing something. And so we have passed up things where we could have made billions and billions of dollars from things we understood, forget about things we don't understand. The fact I could have made billions of dollars from Microsoft doesn't mean anything because I never could understand Microsoft. But if I can make billions out of healthcare stocks, then I should make it. And I didn't when the Clinton health care program was proposed and they all went in the tank. We should have made a ton of money out of that because I could understand it. And didn't make it.

I should have made a ton of money out of Fannie Mae back the mid-1980s, but I didn't do it. Those are billion dollar mistakes or multi-billion dollar mistakes that generally accepted accounting principles don't pick up. The mistakes you see. I made a mistake when I bought US Air Preferred some years ago. I had a lot of money around. I make mistakes when I get cash. Charlie tells me to go to a bar instead. Don't hang around the office. But I hang around the office and I have money in my pocket, I do something dumb. It happens every time. So I bought this thing. Nobody made me buy it. I now have an 800 number I call every time I think about buying a stock in an airline. I say, "I am Warren and I am an air-aholic." They try to talk me down, "Keep talking don't do anything rash." Finally I got over it. But I bought it. And it looked like we would lose all our money in it. And we came very close to losing all our money in it. You can say we deserved to lose our money it.

We bought it because it was an attractive security. But it was not in an attractive industry. I did the same thing in Salomon. I bought an attractive security in a business I wouldn't have bought the equity in. So you could say that is one form of mistake. Buying something because you like the terms, but you don't like the business that well. I have done that in the past and will probably do that again. The bigger mistakes are the ones of omission. Back when I had $10,000 I put $2,000 of it into a Sinclair Service Station which I lost, so the opportunity cost on that money is about $6 billion right now--fairly big mistakes. It makes me feel good when my Berkshire goes down, because the cost of my Sinclair Station goes down too. My 20% opportunity cost. I will say this, it is better to learn from other people's mistakes as much as possible. But we don't spend any time looking back at Berkshire. I have a partner, Charlie Munger; we have been pals for forty years—never had an argument. We disagree on things a lot but we don't have arguments about it.

We never look back. We just figure there is so much to look forward to that there is no sense thinking of what we might have done. It just doesn't make any difference. You can only live life forward. You can learn something perhaps from the mistakes, but the big thing to do is to stick with the businesses you understand. So if there is a generic mistake outside your circle of competence like buying something that somebody tips you on or something of the sort. In an area you know nothing about, you should learn something from that which is to stay with what you can figure out yourself. You really want your decision making to be by looking in the mirror. Saying to yourself, "I am buying 100 shares of General Motors at $55 because........" It is your responsibility if you are buying it. There's gotta be a reason and if you can't state the reason, you shouldn't buy it. If it is because someone told you about it at a cocktail party, not good enough. It can't be because of the volume or a reason like the chart looks good. It has to be a reason to buy the business. That we stick to pretty carefully. That is one of the things Ben Graham taught me.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

If we start buying a stock, we want to go in heavy. I can't think of a stock where we wanted to quit.

We've made some big mistakes starting to buy something that was cheap and within our circle of competence, but trickled off because price went up a bit. Good ideas are too scarce to be parsimonious with.

[CM: After nearly making a terrible mistake not buying See's, we've made this mistake many times. We are apparently slow learners. These opportunity costs don't show up on financial statements, but have cost us many billions.]

- *Source: BRK Annual Meeting Tilson Notes 2003*
- *URL:*
- *Time: 2003*

The main mistakes we've made – some of them big time – are: 1) Ones when we didn't invest at all, even when we understood it was cheap; and 2) Starting in on an investment and not maximizing it.

Charlie is a big fan of doing things on a big scale. But when I bought something at X and it went up to X and 1/8th, I sometimes stopped buying, perhaps hoping it would come back down. We've missed billions when I've gotten anchored.

[CM: Do you have anything worse to confess than Wal-Mart?

I cost us about $10 billion. I set out to buy 100 million sharers, pre-split, at $23. We bought a little and it moved up a bit and I stopped buying. Perhaps I thought it might come back a bit – who knows? That thumb-sucking, the reluctance to pay a little more, cost us a lot. There are other examples.

On the other hand, it doesn't bother us. If every shot you hit in golf was a hole-in-one, you'd lose interest. You gotta hit a few in the woods.

We probably won't make the kind of mistake that costs us a lot – though we did with Dexter Shoes. We're more likely to make mistakes of omission, not commission, in the future.

[CM: Since mistakes of omission don't appear in the financial statements, most people don't pay attention to them. We rub our noses in mistakes of omission – as we just did.

- *Source: BRK Annual Meeting Tilson Notes 2004*
- *URL:*

- *Time: 2004*

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How do you determine what is the proper price to pay for the business?

It is a tough thing to decide but I don't want to buy into any business I am not terribly sure of. So if I am terribly sure of it, it probably won't offer incredible returns. Why should something that is essentially a cinch to do well, offer you 40% a year? We don't have huge returns in mind, but we do have in mind not losing anything. We bought See's Candy in 1972, See's Candy was then selling 16 m. pounds of candy at a $1.95 a pound and it was making 2 bits a pound or $4 million pre-tax. We paid $25 million for it—6.25 x pretax or about 10x after tax. It took no capital to speak of. When we looked at that business—basically, my partner, Charlie, and I—we needed to decide if there was some untapped pricing power there. Where that $1.95 box of candy could sell for $2 to $2.25. If it could sell for $2.25 or another $0.30 per pound that was $4.8 on 16 million pounds. Which on a $25 million purchase price was fine. We never hired a consultant in our lives; our idea of consulting was to go out and buy a box of candy and eat it.

What we did know was that they had share of mind in California. There was something special. Every person in Ca. has something in mind about See's Candy and overwhelmingly it was favorable. They had taken a box on Valentine's Day to some girl and she had kissed him. If she slapped him, we would have no business. As long as she kisses him, that is what we want in their minds. See's Candy means getting kissed. If we can get that in the minds of people, we can raise prices. I bought it in 1972, and every year I have raised prices on Dec. 26th, the day after Christmas, because we sell a lot on Christmas. In fact, we will make $60 million this year. We will make $2 per pound on 30 million pounds. Same business, same formulas, same everything--$60 million bucks and it still doesn't take any capital.

And we make more money 10 years from now. But of that $60 million, we make $55 million in the three weeks before Christmas. And our company song is: "What a friend we have in Jesus." (Laughter). It is a good business. Think about it a little. Most people do not buy boxed chocolate to consume themselves, they buy them as gifts— somebody's birthday or more likely it is a holiday. Valentine's Day is the single biggest day of the year. Christmas is the biggest season by far. Women buy for Christmas and they plan ahead and buy over a two or three week period. Men buy on Valentine's Day. They are driving home; we run ads on the Radio. Guilt, guilt, guilt— guys are veering off the highway right and left. They won't dare go home without a box of Chocolates by the time we get through with them on our radio ads. So that Valentine's Day is the biggest day.

Can you imagine going home on Valentine's Day—our See's Candy is now $11 a pound thanks to my brilliance. And let's say there is candy available at $6 a pound. Do you really want to walk in on Valentine's Day and hand—she has all these positive images of See's Candy over the years—and say, "Honey, this year I took the low bid." And hand her a box of candy. It just isn't going to work. So in a sense, there is untapped pricing power—it is not price dependent.

Think of Disney. Disney is selling Home Videos for $16.95 or $18.95 or whatever. All over the world—people, and we will speak particularly about Mothers in this case, have something in their mind about Disney. Everyone in this room, when you say Disney, has something in their mind about Disney. When I say Universal Pictures, if I say 20th Century Fox, you don't have anything special in your mind. Now if I say Disney, you have something special in your mind. That is true around the world.

Now picture yourself with a couple of young kids, whom you want to put away for a couple of hours every day and get some peace of mind. You know if you get one video, they will watch it twenty times. So you go to the video store or wherever to buy the video. Are you going to sit there and premier 10 different videos and watch them each for an hour and a half to decide which one your kid should watch? No. Let's say there is one there for $16.95 and the Disney one for $17.95—you know if you take the Disney video that you are going to be OK. So you buy it. You don't have to make a quality decision on something you don't want to spend the time to do. So you can get a little bit more money if you are Disney and you will sell a lot more videos. It makes it a wonderful business. It makes it very tough for the other guy.

How would you try to create a brand—Dreamworks is trying—that competes with Disney around the world and replaces the concept that people have in their minds about Disney with something that says, Universal Pictures? So a mother is going to walk in and pick out a Universal Pictures video in preference to a Disney. It is not going to happen.

Coca-Cola is associated with people being happy around the world. Everyplace – Disneyland, the World Cup, the Olympics—where people are happy. Happiness and Coke go together. Now you give me—I don't care how much money—and tell me that I am going to do that with RC Cola around the world and have five billion people have a favorable image in their mind about RC Cola. You can't get it done. You can fool around, you can do what you want to do. You can have price discounts on weekends. But you are not going to touch it. That is what you want to have in a business. That is the moat. You want that moat to widen.

If you are See's Candy, you want to do everything in the world to make sure that the experience basically of giving that gift leads to a favorable reaction. It means what is in the box, it means the person who sells it to you, because all of our business is done when we are terribly busy. People come in during theose weeks before Chirstmas, Valentine's Day and there are long lines. So at five o'clock in the afternoon some woman is selling someone the last box candy and that person has been waiting in line for maybe 20 or 30 customers. And if the salesperson smiles at that last customer, our moat has widened and if she snarls at 'em, our moat has narrowed. We can't see it, but it is going on everyday. But it is the key to it. It is the total part of the product delivery. It is having everything associated with it say, See's Candy and something pleasant happening. That is what business is all about.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

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What do you do if business changes are recognized?

If a good business is doing dumb things with your money, it is wise to get out. The option is always there to try to persuade the business to change its mind but this is difficult. Investment techniques must be simpatico with all.

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

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Do you know of any examples of companies that have lost and regained their competitive advantage?

There aren't many examples of companies that lose and then regain competitive advantage. I have a friend who likes taking over lousy businesses and trying to turn them into great businesses [I wonder whether he was referring to Jack Byrne of White Mountains Insurance?]. I asked him for examples of this [bad businesses turning into good businesses] over the past 100 years [and he couldn't name very many].

Sometimes businesses have problems, but haven't lost their competitive advantages. When GEICO had problems [in the mid-1970s], the model wasn't broken.

One example: Pepsi lost its edge post-WW II when costs went up, but they successfully changed. To some extent Gillette lost its competitive edge in the 1930s to penny blades, but then regained it.

But generally speaking, when a company loses its edge, it's very difficult to regain. Packard [cars] went downscale one year and never regained its upscale image. Department stores have done this. You can always juice sales by going down market, but it's hard to go back up market.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Impact of regulation on businesses?

In some businesses, regulatory changes have a big impact, others none. We just try to think intelligently about any business that we're in. What regulatory changes might there be? What might the impact be? If we're in furniture retailing, we're not going to think about it. It's up to Charlie and me to think about this and weigh it in our evaluation of a company.

[CM: In our early days, we tended to overestimate the difficulties of regulation. We refrained by buying the stocks of television stations because we thought it was peculiar that someone could ask to have the government pull your license any year – and the government could do it.]

Tom Murphy [the former head of Capital Cities and Cap Cities/ABC; click here to read a 2000 interview with him] was way ahead of us on this one.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

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Would you comment on the quality of earnings in capital-intensive businesses, like utilities?

Buffett: Capital-intensive industries outside the utility sector scare me more. We get decent returns on equity. You won't get rich, but you won't go broke either. You are better off in businesses that are not capital intensive.

Munger: A lot of moats have been filling up with sand lately.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

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Please talk about the shift to investing in capital intensive business and the ultimate impact on intrinsic value. Help us understand the time value of the necessary capital expenditures.

WB: It’s clear you understand the question well, and it as important a question as you can ask. We are putting big money in big businesses with good economics, but not as good as when we were dealing with smaller amounts. $40m of capital required in See’s and it earns much more than that. If we could put in more we would. But wonderful businesses don’t soak up capital – we had $2.2b operating earnings in Q1. We have to put it out as intelligently as we can. When we find them, we’ll buy them. Can we put it to work intelligently? We think capital intensive businesses we have bought are good, working well. But it can’t work brilliantly, we can’t spend all that money and still get high returns. But does that mean we should pay out excess capital instead? No, because we think they can earn a good return even with the need to make capital investments in certain businesses. We are better paying it out only if we can’t translate it into more than $1 of present value. In our judgment with BNSF we did it, but scorecard will only come in 10 to 20 yrs. In MidAmerican, we have done it. But it won’t be a Coca-Cola – which doesn’t need as much capital. I hope we don’t disappoint you. If anyone expects brilliant returns from this base at Berkshire, we don’t know how to do it.

CM: I’m just as good at not knowing as you are.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

How do you place a value on intangible assets? What are the signs of great “moats” around a business and great managements? Do you place a dollar value on this? What discount rates do you use?

We use a treasury rate for comparability across companies and time. As far as we’re concerned, a dollar earned by The Lucky Horseshoe Company is the same as a dollar earned by an Internet company - even if the market is a lot more enthusiastic about the Internet company dollar.

Valuation is an art. Look at Wrigley: pick a figure for what the volumes will be, their prices, their competition, the likelihood of management being bright with cash. All of that figures into the moat and its size, and what that business will earn.

There aren□’t many businesses with a terrific moat. Coke has a terrific moat, right down to the container. How many other products can people identify correctly when they□’re blindfolded? Coke has not just market share, it has a great share of mind. People associate Coke with good things. Ten years from now, the moat formed by that share of mind will be even greater.

No formula in finance tells you that the moat is 28 feet wide and 16 feet deep. That□’s what drives the academics crazy. They can compute standard deviations and betas, but they can□’t understand moats. Maybe I□’m being too hard on the academics.

[CM: You□’re not sufficiently critical of the academics. They remind me of Long Term Capital Management - why do smart people do dumb things against their own self-interest?]

Now we have whole finance departments full of destructive self-pity, which is one of the most dangerous forces in the world. And you are paying to send your children to those schools!

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

Not too long ago, a reasonable person might have concluded that Kellogg and Campbell Soup had big moats around their businesses, but that has proven not to be the case and their stocks have languished. What might we learn from this?

I'm not an expert on these companies, but my understanding is that Kellogg pushed their pricing too far. They didn't have to moat they thought they had versus General Mills and other major competitors. Campbell's problems are more related to lifestyle changes of Americans. Soup fits in a little less well than it did 40 years ago.

With soft drinks, there has been no decrease in demand for decades. 30% of liquid consumption of Americans is soda and 40% of that is Coke products, so 1/8th of U.S. liquid consumption is Coke products.

Coffee and milk consumption has been declining every year -- it's clear where preferences go once people start drinking soda.

These trends are almost impossible not to happen in developing countries, where the consumption of Coke products is 1/50th what it is in the U.S. -- though Coke could screw it up by pricing too high.

Coke has also benefited from its relative price. Since 1930, its cost per ounce has only doubled. This very low price inflation has contributed to the increase in per capita consumption.

[Munger: "Kellogg's and Campbell's moats have also shrunk due to the increased buying power of supermarkets and companies like Wal-Mart. The muscle power of Wal-Mart and Costco has increased dramatically."]

There is always a battle between the retailers and manufacturers of branded products. In the 1930s, A&P had its own line of branded products that did very well. It would be interesting to know what happened.

- *Source: BRK Annual Meeting 2001 Tilson Notes*
- *URL:*
- *Time: April 2001*

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What's your opinion of downsizing and outsourcing?

Whether or not such actions are necessary depends on the industry: if it□’s a growing industry, you don□’t need such measures. If there□’s not enough growth in an industry to support all of the players, it□’s in society□’s best interests to have the most output produced with the least inputs - but society needs to help those who find themselves on the outside. □“I believe this has been more of a media story than a real news story,□” Buffett explained. □“I don□’t believe there□’s a greater percentage of people displaced as a percentage of the work force than there was ten years ago.□”

Munger□’s take on the situation: □“I can□’t name a firm that was harmed by over-downsizing. I can rattle off name after name of ones that were ruined by bloat. It□’s fashionable to say downsizing is wrong: I think it□’s wrong that the firms got in such a state that they needed downsizing.□

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

Can you comment on the impact of rising commodity prices on margins?

Our carpet business has been hit by rising commodity prices. Sometimes you can get into temporary situations in which you can’t raise prices fast enough to keep up with rising input costs. But the main impact of the rising price of oil – it’s an extra $200 million per day – is borne by American consumers.

Corporate profits are at an all-time high as a percentage of GDP. I’d bet that they go down in the next few years. Corporate taxes [as a percent of total taxes] are at an all-time low and there’s likely to be reversion to the mean.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

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Could you explain a little more about the mind of the consumer and the nature of the product? And explain how you actually apply these concepts to find the companies with the best potential?

When you get into consumer products, you're really interested in thinking about what is in the mind of how many people throughout the world think about a product now, and what is likely to be in their mind 5 or 10 or 20 years from now. Now virtually every person around the globe (maybe 75% of people) have some function in their mind about Coca-Cola. The name Coca-Cola means something to them. You know, RC Cola doesn't mean something to virtually anyone in the world. Well, it does to the guy who owns RC, but everybody has something in their mind about Coca-Cola, and overwhelmingly it's favorable. It's associated with pleasant experiences. Now part of that is that by this time, [Coca-Cola is found] where you are happy, it is at Disneyworld, it's at ballparks, every place you're likely to have a smile on your face, including the Berkshire Hathaway meeting I might add. (laughter) And that position in the mind is pretty firmly established, and it's established in close to 200 countries around the world. A year from now, it will be established in more minds and will have a slightly different overall position. In 10 years, the position will change just a little bit more. It's share of mind, not share of market that counts.

Disney, same way--Disney means something to billions of people. If you're a parent with a couple of young children, and you've got 50 videos that you can buy, you're not going to sit down and preview an hour and a half of each video before deciding which one to stick in front of your kids. And you've got something in mind about Disney that you don't have about ABC Video Company, or you don't even have about 20th Century, and you don't have about Paramount. That name to billions of people has a meaning, and that meaning is overwhelmingly favorable, reinforced by the other activities of the company. Just think what someone would pay to buy that share of mind. You can't do it. You can't do it by a billion dollar advertising budget, or a 3 billion dollar advertising budget, or by hiring a twenty thousand supersalesmen. So you've got that. Now the question is what does that stand for 5 or 10 or 20 years from now. You know there'll be more people, you know there'll be more people familiar with Disney, and you know that there will always be parents who are interested in having something for their kids to do and that kids will love the same sort of things. That's what you're trying to think about with a consumer products company.

That's what Charlie and I were thinking about when we bought See's Candy. Who's face lights up on Valentine's Day when you hand them a box of candy from some nondescript company and you say, "Here, honey, I took the low bid?" You have many millions of people who got handed a box of [See's] candy and it wasn't that much thereafter that they got kissed for the first time. So the memories are good, the associations are good. A position in the mind is what counts in a consumer product. But it's a total process ... a very good product may need tons of infrastructure. I had a case of Cherry Coke waiting for me at the Great Wall of China. You've got to have the product there when people want it. In World War II, General Eisenhower said to Mr. Woodruff that he wanted a Coca-Cola within arm's length of every American servicemen in the world, and they built a lot of bottling plants to take care of that. That sort of positioning can be incredible. It seems to work especially well for American products. People want certain American products worldwide ... our music, our movies, our soft drinks, our fast food. I can't imagine a French firm, or a German firm, or a Japanese firm selling 48% of the world's soft drinks. It's part of American culture and the world hungers for it. Kodak, for example, somehow does not have the same place in the world's mind now that it did 20 years ago ... Fuji pushed their way to more parity with Kodak. You don't want to ever let them do that. That's why you can see a Coca-Cola or a Disney doing things that you think, well this doesn't make a whole lot of sense, that if they didn't spend this $10 million, wouldn't they still sell just as much Coca-Cola. You don't know which dollar is doing it, but you do know that virtually everybody in the world has heard of your product and has a favorable impression of it .... With See's Candy, we're no better than the last customer who's been served their candy, but as long as we do the job on that, people can't catch us. We can charge a little more for it because people are not interested in taking the low bidder. Private labels stalled out in the soft drink business, because people want the Real Thing.

[CM: I think the See's candy example has an interesting teaching lesson for all of us. It was the first time we really stepped up for brand quality and it was a hard jump for us ... If they had demanded an extra $100,000 for the See's Candy company, we wouldn't have bought 'em, and that was after Warren was trained by the best one of the greatest professors of his era ... We just didn't have minds well-enough trained to make an easy decision right. But we did buy it, and as it succeeded we kept learning. I think that shows that the name of the game is continuing to learn, and that brings along the delicate problem that people sometimes talk about "two ageing executives," but I don't know what the hell that means as an adjective, because I don't know anybody who is going in the other direction. (laughter)]

WB: If we hadn't have bought See's, we wouldn't have bought Coca-Cola in 1988, so you have give See's a significant part of the credit for the $11 billion plus profit we've got in Coca-Cola at the present time.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

What do you think the best quality is in a business or a person?

There are many important qualities to have in a business and many important qualities in a person. In a business always look for a great product at a fair price, and with honest reliable management. In a person, I think that honesty, brains, and hard work are very important qualities. People who demonstrate these consistently, will usually be successful in whatever they do.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions/*
- *Time: 2010*

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How do you grow a small business into a big business?

WB: Berkshire was a small business at one time. It just takes time. It is the nature of compound interest. You can’t build it in one day, or one week. Charlie and I never tried to do a masterstroke to convert Berkshire into something four times bigger. We just consistently kept doing what we understood and, if you have fun doing it, then it’ll be something quite large at some point. Nothing magical. It would be nice to multiply money in a few weeks. In a general way, we have done the same things for years. We will have more businesses in a few years - some will do worse, but most will do better. It is an automatic formula for getting ahead, but not galloping. We are happy not doing anything at all. As Gypsy Rose Lee said, 'I have everything I had before, just two inches lower.' [laughter] We want everything in two years to be higher.

CM: It's the nature of things that most small businesses will never be big businesses. It is the nature of things that most big businesses fall into mediocrity or worse. Most players have to die. We have only made one new business, and that is the reinsurance business run by Ajit. We only created from scratch one small business into a big one. We've only done it once. We are a one-trick pony.

WB: Without Ajit, we wouldn't have done it all. CM: The best investment we ever made was the fee we paid to an executive recruiter to find Ajit Jain.

WB: We went into the muni bond [insurance] business. Ajit got the company up, licensed and running. In Q1'08, our premium volume was $400 million. Our volume was bigger than anyone else, and I wouldn't be surprised if it was bigger than all the rest combined. They did 278 transactions. All done in an office with 29 or 30 people. One of the interesting things about it was that almost all the business was from people who already had insurance from others who are rated AAA. So we pay out only if the muni defaulted AND the bond insurer didn't pay. We wrote for 2.25% when the original guy charged 1%. This tells you something about AAA in bond insurance in 2008. Ajit has done a remarkable job. We wrote a couple policies for Detroit sewers, and people have found these bonds trading at a better price than others only insured by other bond in- surers. I congratulate Ajit for it.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

How do you build the culture of a new organization or change that of an existing one?

Buffett: It is much easier to create a new culture from scratch. It is very hard to change existing cultures. At BRK it would be impossible to change the culture. Accordingly, it is much better to start from scratch than to change a culture. I've had the luxury of time with Berkshire. I didn't have to fight anything. As we added they became completentary. It took decades. If you tried to change it, people would reject it.

Munger: My failure rate was 100%. (Referring to changing of existing culture)

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

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Alternatives to Common Stock

Your opinion on derivatives?

[2003 - Re: pre-releasing part of the annual letter in Fortune] I was interested in the section on derivatives -- I thought it had a broader audience. It had no relation to Berkshire directly. The primary reason is that I hoped for a wider audience.

Charlie and I think that there is a low but not insignificant probability that at some time -- I don't know when; it could be three years, it could be 20 years -- derivatives could lead to a major problem. The problem grows as derivatives get more complex. We hoped to give a mild wakeup call to the financial world that there's a problem. In the energy sector, derivatives destroyed or almost destroyed institutions that shouldn't have been destroyed. [He mentioned Enron.]

Charlie and I would not know how to regulate it. We have some experience seeing specific dangers in that field and some insight into systemic problems that can arise. People don't want to think about it until it happens, but it is best thought about before it happens.

It's a low probability, but we think a lot about low probability events. We have some experience with Salomon and Gen Re.

Charlie saw some things on Salomon's audit committee [that were very risky/questionable].

[CM: In engineering, people have a big margin of safety. But in the financial world, people don't give a damn about safety. They let it balloon and balloon and balloon. It's aided by false accounting. I'm more pessimistic than Warren. I'll be amazed if we don't have some kind of significant blowup in next 5-10 years.

Derivatives are advertised as shedding risk for the system, but they have long crossed the point of decreasing risk and now increase risk. The truth is that Coca Cola could handle risk [I think he was talking about currency exposure], but now with every company transferring risk to very few players, they are all hugely interdependent. Central banks are exposed to weaknesses. If Salomon had failed, the problems for the rest of the system could have been quite significant. When you start concentrating risk in institutions that are highly leveraged, [watch out]. They have big trading departments with people who make a lot of money.

It's not a prediction, it's a warning.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

We don’t think that in any year the chance is very high that derivatives will lead to or greatly accentuate a financial trauma, but we think it’s there.

It’s fascinating to look at a company like Freddie Mac: an institution that dozens of financial analysts were looking at; that had an oversight office; that was created by Congress with committees to oversee it; that had two smart, exceptional board members, Marty Leibowitz and Henry Kaufman; and that had auditors present – yet Freddie misstated earnings by $6 billion in a short time. That’s big money. And a large part of it was facilitated by derivatives. You can go back and read the footnotes, listen to the conference calls, etc. and you wouldn’t have known. In the end, it was $6 billion, but it could have been $12 billion if they’d wanted.

Derivatives can lead to a lot of mischief. When you have a complicated derivative transaction, and a trader with investment house A on one side and investment house B on the other side, and on the day the deal is done, both record a profit, this can lead to mischief – and the scale is getting bigger every day.

I know the managements of many large financial institutions and they don't have their minds around this. We tried at Gen Re [where we had a small derivative book] and couldn't.

Whatever problems there were at Salomon [during its crisis years ago], they're far, far worse now [systemwide].

In 1991, if the government hadn't reversed himself [in its plans to take actions that would have put Salomon out of business], we were preparing documents [to file for bankruptcy. Had this happened,] We had $1.2 trillion [notional value] of derivative contracts that others were counting on, that would have gone bad. All sorts of securities transactions wouldn't have settled, accounts in Japan and the UK would have been affected, etc. For instance, Salomon had a relationship with a bank in Germany which took large deposits in Germany and lent the money to Salomon. All kinds of things would have come out. You don't need to put these strains on a system that's already highly leveraged.

When you get huge amounts of transactions, which not many people understand, you create a huge problem that may be triggered by an exogenous event.

We use derivatives – we get them collateralized – and we've made money on them. But I predict that sometime in the next 10 years, we will have a big problem caused by or exaggerated by derivatives.

[CM: People don't think about the consequences of the consequences. People start by trying to hedge against interest rate changes, which is very difficult and complicated. Then, the hedges made the results [reported profits] lumpy. So then they use new derivatives to smooth this. Well, now you've morphed into lying. This turns into a Mad Hatter's Party. This happens to vast, sophisticated corporations.

Somebody has to step in and say, "We're not going to do it -- it's just too hard."

It was bonkers and the accountants sold out.]

If you want to have a little fun, go to the annual meeting of a big financial company and ask about the details of a complex transaction. They won't know – but you can be sure the trader who did it will be well paid for it.

Any time you have situation where smart people can make money by taking risk, you'll get it.

Derivatives were supposed to spread risk, and some make that argument today. This may be true much of the time, but what about when risk becomes highly concentrated in a few institutions? Coke is better able to take currency risk than most trading desks. Overall, there's much more risk in the system because of derivatives.

[In response to a shareholder who compared super cat reinsurance risk to derivative risk, Buffett responded:]

The derivative contracts that Gen Re wrote are not similar to the super cat insurance we're writing. We're reinsuring personal or business risks others don't want to or are unable to bear. In our view, it made no sense to be in the derivatives business.

[CM: They're radically different. Derivatives are full of clauses that say if one party's credit gets downgraded, then they have to put up collateral. It's like margin – you can go broke. In attempting to protect themselves, they've introduced instability. Nobody seems to have recognition of what a disaster of a system they've created. It's a demented system.

Had Berkshire not bought Gen Re, which was rated AAA, it could have run into terrible financial difficulty post-9/11, especially if they'd recognized their actual liabilities. They would have been downgraded, which could have triggered things in derivative activities which would have triggered coming up with loads of cash.

The system wasn't built to last. Many CEOs at major financial institutions don't really comprehend that. When you get margin calls for huge amounts of money, it only has to be one day when you can't meet it [and you can be forced to file for bankruptcy]. In 1987, there was a large wire transfer that was late arriving at a Chicago brokerage house, and it came close to unraveling the system (the money finally showed up).

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[Q - How dangerous are derivatives to the financial system and what can be done to mitigate potential damage from them?]

We've tried to mitigate it [raise warning flags about the dangers of derivatives] a little by talking about it, but realize there is nothing inherently evil about derivatives. We have at least 60 of them and will be discussing them at our upcoming Berkshire board meeting.

Derivatives are expanding rapidly, in more and more imaginative ways. They introduce invisible leverage into the system. In the 1930s, after the crash, the government concluded that leverage contributed to the crash and that it was dangerous. So the U.S. government empowered regulators to deal with this. For decades, they policed it and it was taken seriously when the Fed increased or decreased margin requirements.

But the introduction of derivatives has made any regulation of margin requirements a joke. The regulation still exists, but it's an anachronism.

I believe that we may not know when it becomes a super danger or when it will end precisely, but I believe it will go on and increase until very unpleasant things happen because of it.

You saw one example of what can happen under forced sales in October 1987. It was driven by portfolio insurance, which was a joke. It was a bunch of stop/loss orders, but done automatically, and it was merchandized. People paid a lot of money for people to teach them how to put in a stop/loss order. When a lot of institutions do this, the effect is pouring gas on a fire. They created a doomsday machine that kept selling and selling.

You can have the same thing today because you have fund operators with billions of dollars – in aggregate, trillions of dollars – who will all respond to the same stimulus. It's a crowded trade, but they don't know it and it's not formal. They will sell for the same reasons. Someday, you will get a very chaotic situation.

As for what could trigger this and when, who knows? Who had any idea that shooting an archduke would start Word War I?

Munger: The accounting being enormously deficient contributes to the risk. If you get paid enormous bonuses based on profits that don't exist, you'll keep going. What makes it difficult [to stop] is that most of the accounting profession doesn't realize how stupidly it's behaving. One person told me the accounting is better because positions are marked to market and said, "Don't you want real-time information?" I replied that if you can mark to market to report any level of profits you want, you'll get terrible human behavior. The person replied, "You just don't understand accounting."

Buffett: When we went to close out Gen Re's derivatives book, we took a $400 million loss on a portfolio that was "marked to market" by the prior management and auditors – and I'm not criticizing our auditor. Any auditor would have said the same. I wish I could have sold to the auditors instead!

Take a dry cleaning business that owes $15. Their books show a $15 accounts payable and the other company shows an offsetting $15 accounts receivable. But there are only four big auditing firms, so in many cases, if they're auditing my side, the same firm may be valuing or attesting to the value of what's on the books of the person on the other side. I will guarantee you that if you add up the marks on both sides, they don't add up to zero. We have 60 or more derivative contracts, and I'll bet the other side isn't valuing them like we are. I have no reason to mark the value up – we don't get paid for that. If I value it at $1 million on our side, the other side should be marking it at minus $1 million, but I guarantee the numbers are widely different. Auditors should check both sides of derivative trades and the "marks" should sum to about zero. They don't.

Munger: As sure as God made little green apples, this will cause a lot of trouble. This will go on and on, but eventually will cause a big denouement.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[back to the questions.]

What are your views on derivatives and how do you think they have affected the global market?

In my 2002 letter to shareholders I referred to them as "weapons of mass destruction." Derivatives are really just a way to create a product with a very long fuse, for example, 100 years, as opposed to stocks which settle in 3 days. That kind of system allows claims to be built up. AIG called me in September and told me they were about to get downgraded which would have required higher posting requirements. Now this is an enterprise that has been built up over decades and was effectively destroyed in 48 hours by these products. With derivatives, you're exposed to counterparties and thus reliant on others. These claims built up over time to the tune of billions of dollars and when one falls, the whole system falls. Derivatives are not evil by themselves but rather everyone needs to be able to handle them. System wide, they're rat poison. Berkshire holds many derivatives but we always hold the money at Berkshire.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

[Q: Given the large amount of value that's been destroyed by the use of derivatives, is it appropriate for Berkshire to hold large derivative positions?]

Buffett: Yes, derivatives pose problems to the world. Our job is to make money over time, and our use of derivatives doesn't impinge on Berkshire's capital — we have posted collateral of less than 1% of our total marketable securities. I said in 2002 that we use them. We think that as long as we explain [our use of] derivatives, the benefits outweigh the costs. We received $4.9 billion in premiums [for writing equity puts] and can use this money for 15 – 20 years. I personally think that we'll make money on our equity put options. We'd have to lose money over 15 – 20 years [to lose on our equity puts]. We had a financial hurricane, [yet regarding] the equity put contracts, there's a good chance we'll make money on those. During the last week we modified two put contracts—reducing the term to about 10 years and reducing the strike price from 1,514 to 994. Our shareholders are intelligent enough to understand [the situation] if we explain it.

Munger: I would agree that there should be limits, and we have stayed well short of the limit that's appropriate.

[What do you think Ben Graham would think about derivatives?]

Buffett: He would not like them. They cause risk to run wild. They increase risks and strains, but if some were mispriced, he'd act accordingly. But he wouldn't get into a position of letting others get him in trouble. After 1929, Congress decided it was dangerous to borrow against securities, so the Fed was empowered to regulate margin levels. But derivatives made those rules a laughing stock. Derivatives came to be a way around margin regulations. They also allowed longer settlement periods, another danger. Buy Galbraith's The Great Crash.

Munger: There's a deeper problem. [Concerning derivatives trading] the dealer has two advantages: [1] a croupier-style house advantage, and [2] the dealer plays in the same game and is a better player and knows what the client is doing [buying and selling]. It's a dirty business. We don't need more of this kind of thing in America; we need less.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

[Q: What useful function do derivatives serve? Why aren't derivatives illegal?]

WB: Charlie may have more to comment.

CM: The usefulness of derivatives is overstated. We'd still have oats and wheat if we didn't have derivative markets. The test is not 'is there any benefit', but is the NET benefit or disadvantage useful or better without. My own view is that if we had only [exchange traded] [Ed: another notetaker heard: agriculture and metals] and banned the rest – the world would be better place.

WB: BNSF has diesel contracts. If I was running the place, I wouldn't hedge - unless you are smarter than the market in diesel fuel. If you are you shouldn't be running a railroad, you should be run a diesel trading business. If you have someone in charge of running that hedge, they will hedge it. If he thinks that will make him a better manager of railroads, then fine, let him do it, but I will hold CEO responsible for running it over time. I wouldn't condemn anyone for hedging diesel fuel. But I do think if you put up (slide4) – from Chapter 12 of Keynes General Theory – it is by far the best description of the way capital markets function. It is descriptive and prescriptive. Usually only the first two sentences are quoted, but it is better as a whole paragraph:

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism – which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object.

Wall Street is mix of casino and a very important social operation – and once academia got behind derivatives and schools taught more about how to price a derivative instead of valuing a business, the trouble began. In 1982 Wall Street allowed speculation in SP500 futures. I wrote letter to Congressman Dingle which was published in Fortune Magazine. What I forecasted occurred then it got squared, with new ways to gamble.

CM: Warren wrote the only letter saying the idea is insane. Only difference is then not very many people listened to him.

WB: It doesn’t make any sense that the tax treatment on gambling on S&P 500 contracts is better (partial long term capital gains treatment) than buying and holding individual stocks for less than a year (SP500 contract is taxed 60% long-term gain and 40% short term, even if you hold it for 60 seconds). This distortion came about as a result of the power of a small group of lobbyists. Charlie do you know why this is?

CM: It is neither fair nor sensible. The idea that the tax treatment on something that is held for 3 seconds is different than something that is held for less than a year (some long term gains treatment for the former and none for the latter) is insane. If someone with money and interest cares a lot and others are indifferent, that someone wins in front of the legislative bodies. As Bismarck said, don’t watch sausage making or law making.

- *Source: BRK Annual Meeting 2010 Boodell & Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What's your opinion of stock options?

[Munger: "If you look at the impact of stock options, you'll see a lot of terrible behavior. To give a lot of options to a CEO who built the business and is in his 60s to incent loyalty is demented. Would the doctors at the Mayo Clinic or the lawyers at Cravath in their 60s work harder if they had options?"]

If can lead to extremely capricious compensation results that have no link to a person's results.

A CEO could simply put money in the bank and grow the business, so there should be a cost of capital factor built into any compensation plan. Also, options should not be issued when the stock is below intrinsic value.

[Munger: "The theory that options have no cost has contributed to a lot of excesses, which is bad for the country because corporate compensation is perceived as unfair."]

Well-fed CEOs are descending on Washington to persuade your Congressmen not to require expensing of options because they'd get less. It's sort of shameful.

All of the opposition to options comes from people who would get fewer of them. If there was a rule saying the CEO's salary didn't count as an expense [and there was a proposal to rescind this rule], you can bet they'd be in there fighting to keep the status quo.

[Q: Wouldn't expensing stock options be double counting, since they're already factored into the diluted share count?]

No. When you issue options at the market price, there's no dilution until the stock rises, but diluted and basic shares are the same.

I don't have any objection to options under certain conditions -- I just think they should be recorded as an expense.

We'll take options from certain companies in lieu of cash as payment for insurance -- even 10-year, 50% out-of-the-money options.

[CM: "A stock option is both an expense AND dilution. To argue anything else is insane. I'd rather make my money playing piano in a whorehouse than account for options as recommended by John Doerr."]

"Look at Dell. They're buying and selling millions of options, but at the same time people are saying companies don't know how to value them. It's specious. A disconnect.

I can figure out what I'd pay for an option on a private business, a public company, an apartment house, a farm, etc. EVERY option has value. People that get them understand this better than those that give them.

We don't blindly use Black-Scholes; we apply judgment.

We would pay something for just about any option.

[CM: "Black-Scholes works for short-term options, but if it's a long-term option and you think you know something [about the underlying asset], it's insane to use Black-Scholes."

Companies will do everything they can to reduce the value of options they grant. We've sat in on these meetings. They assume that options have a shorter life than they really do, etc.

[CM: "The only thing that's consistent is that the whole thing is disgusting."]

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

Charlie and I have thought about options all of our life. My guess is that Charlie was thinking about this in grade school. You don't have to understand Black-Scholes at all, but you have to understand the utility and value of options, and cost of issuing them -- a very unpopular topic in some quarters.

Let's say you sold a house and you asked for an option on the future appreciation of the house. Wouldn't you say that this option had value?

Any option has value, and that's why some people who are kind of slick in business matters get options for nothing or little -- far less than market value. The Black-Scholes model is an attempt to measure market value of options. It cranks in various variables, mainly past volatility of the asset involved, which are not the best judge of value. [For example,] Berkshire had a very low beta -- experts like to give complex Greek names to simple things -- but that doesn't mean the option value to anyone who understood it was lower than another stock with higher volatility.

As Charlie said, Black-Scholes can give silly results over longer term. Last year, we made one large commitment in which somebody on the other side was using Black-Scholes and we made $120 million. We love the idea of someone else using mechanistic formulas. They may be right 99% of the time, but we can pass 99 times and only invest the one time they're wrong.

[CM: Black-Scholes is a know-nothing system. If you know nothing about value -- only price -- then Black-Scholes is a pretty good guess at what a 90-day option might be worth. But the minute you get into longer periods of time, it's crazy to get into Black-Scholes. For example, at Costco we issued stock options with strike prices of $30 and $60, and Black-Scholes valued the $60 ones higher. This is insane.]

We like this kind of insanity. We will pay you real money if you deliver someone to our office who is willing to offer us three-year options that we can pick and choose from.

Options have value. We issued them last year when we sold $400M of bonds. We knew what we were giving up -- it had a negative coupon, but options have value.

They [other companies] pay people with options, [whereas] we pay with cash bonuses. We'd love to not record this expense. Why the opposition? Some people [CEOs] care a lot. They argue that the cost of options is included in the footnotes [of the 10-K], [to which I say] why not pull all expenses in footnotes? Then you could just have two lines on the income statement: sales and the same amount on the next line, profits.

It's amazing what people with high IQs will do [for money]. Charlie has a theory [that it's more than money -- that it's driven by pride.]

[CM: I'm so tired of this subject. I've been on this topic for so long. It's such a rotten way to run a civilization to make the accounting wrong. It's like getting the engineering wrong when making a bridge. When perfectly reputable people say options shouldn't be expensed, it's outrageous.]

The auditors swing back and forth. Now four firms [the Big Four accounting firms] that lobbied against options as an expense in 1993 are on the other side. I don't know how this could be [options were not an expense then, but are now, but I'm happy to see it].

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

Congress has no business legislating accounting. It was a disgrace when Congress 10 years ago effectively bludgeoned Arthur Leavitt into backing down on expensing stock options, at the behest of big corporate contributors. In a very significant way, this accelerated the [accounting] abuses of the late 1990s.

The Senate voted 88-9 to say that it's more important to have stock prices go up than to have accurate expenses. All of the big auditing firms endorsed their big clients' views, so they could report higher earnings. They [the auditing firms] have now shifted completely [and support expensing options].

The compromise was the firms were given the choice of expensing options or showing their cost in the footnotes – and 498 of the S&P 500 companies chose the latter.

I suggest that you write to your Congressmen and tell them that FASB knows more about acting than they do.

In Google, type in "Indiana" and "pi" and you'll find a site [here's one] that relates how, in 1897, the Indiana state legislature voted to round pi to 3.20 because it's an easier number to work with. It passed the Indiana House, but by the time it got to the Senate, a few people managed to get it shot down.

In 1993, the U.S. Senate cleansed the record of the Indiana House by changing the rules on something they knew nothing about [stock options]. 88 senators declared the world was flat because big donors said it was thus.

[CM: The people who voted this way were way worse than in Indiana. Those people were stupid. These people [the 88 Senators] are stupid and dishonorable. They knew it was wrong and did it anyway.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Would you use stock options to enter a position in a public company?

WB: If you want to buy or sell a stock, you should buy or sell a stock. We sold puts on Coca-Cola once, but usually it is best to just buy stock. Using option technique is an idea where you get to buy a stock cheap. Four out of five times you may get it right and one time you may miss the opportunity to buy. We virtually have never used options to enter or exit a position. We have sold long-term equity put options described in our press release. We don't get involved in fancy techniques.

CM: If I remember right, a public authority was wondering if they should set up an option exchange mar- ket. Warren was alone in the opinion of opposing it. You wrote a letter saying it wouldn't do any good to throw out margin rules in this fashion. It doesn't serve the country. I always thought Warren was totally right. Turning financial markets into gambling markets to enrich the croupiers doesn't make sense.

WB: A University of Chicago Graduate student asked me once, what are we being taught that is wrong? In business school the amount of time spent teaching option pricing is total nonsense. You only need two courses, (1) how to value a business, and (2) how to think about stock market fluctuations. The thing is that instructors know the formulas and you don't, so they have something to fill the time. It has nothing to do with investment success—what matters is buying businesses at the right price. If you were teaching Biblical studies and you could read the Bible forward, backward, and in four different languages, you would find it hard to tell everyone that it comes down to the Ten Commandments. The priests want to spend a lot of time preaching. You must have an attitude where you aren't influenced by the market. You need a mind- set, and you need to have the attitude to divorce your- self from letting the market influence you.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

What's your opinion of gold as an investment?

We're not enthused about gold. People say it's a hedge against inflation, but that's also true of oil, land, Coca-Cola, See's Candies, etc. I'd much prefer to own land in Nebraska or an apartment house or an index fund as a store of value. We'd rather own an asset that will be useful even if the currency drops to 10 cents on the dollar. People will always need to drink and eat [referring to Coke and See's]. We wouldn't trade ownership of businesses for a hunk of yellow metal.

[CM: If you have the opportunities of Berkshire, an investment in gold is dumb.]

Gold would be way down my list as a store of value. I'd much rather own 100 acres of land in Nebraska or an apartment house or an index fund.

The Dow went from 66 to 11,000 or 12,000 during the last century, and you got paid a lot of dividends along the way. Gold went from $20 in 1900 to $400 in 2000, plus you'd have to pay insurance and storage costs, so it's not a good store of value.

I'm not advocating paper money – it's good to worry about this. But I'd rather sell one pound of candy. That will retain its value even if the currency is seashells.

Gold has done very badly [as an investment] in the past and I see no reason why it will work well in the future. All that happens is that it is taken out of the ground in South Africa and put back in the ground in Fort Knox. (Laughter)

[CM: Gold was good to have if you were a well-to-do Jewish family in Vienna in 1935 because of the situation [just before the Nazis took over]. But if you're in our position, gold has no interest.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

When would you exchange shares for gold?

The idea of exchanging a producing asset for a non-producing asset seems foreign to me.

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

back to the questions.

What is your opinion on exchange-traded funds and how to do you accurately judge them?

ETF’s are a fairly low cost way to get into a market or industry. We don’t hold any and never will. I recommend index funds for people who don’t want to spend time studying the market. They are good for 95% of the population. If you don’t bring anything to the game, you shouldn’t expect to win.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

Muni bond defaults you described in 2008 -- they haven’t materialized. Should investors worry about getting higher returns?

WB: Harrisburg PA defaulted on a bond recently. Harrisburg may get stuff worked out, but [Assured Guaranty] now paying interest. I think it is hard for federal government to turn away a state having fiscal difficulties. Not sure how to tell governor of State X you were going to stiff arm him after you supported GM. You worry about correlation and contagion in bond insurance. Most insurers have enormous obligations based on their capital. I think they have had a very optimistic attitude. I thought I was getting paid fairly 1.5yrs ago, but not now. So we’ll let someone else do it.

CM: I would try to invest in places that were prosperous and disciplined. As Ben Franklin said, it is hard to hold an empty sack upright, and integrity matters.

WB: Taxpayers in disciplined areas won’t put up with it all.

CM: Bad behavior is contagious. I would rather be with the disciplined.

- *Source: BRK Annual Meeting 2010 Boodell Notes*

- *URL:*
- *Time: 2010*

back to the questions.

Experience with junk bonds?

When we were buying junk bonds, we focused on ones we could understand. They were yielding 30%, 35%, 40% to maturity. We thought of them like equities. Within 12 months, they went to yielding 6%. This is amazing, given that there were no major events. Prices do amazing things.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

In insurance, we think a lot more about low-probability events than most people. We think more about big events in the financial arena than the natural arena. Financial markets have vulnerabilities that we try to think of and build in ways to protect us against them – and even some capabilities where we might profit in a huge way.

[CM:: The temporary collapse in junk bonds, where they got to 35-40% yields, was just a strange thing. There was absolute chaos at the bottom tick. Apply this behavior to stocks – it's not hard to imagine a big crunch coming along.]

It's a fascinating thing to me: in 2002, there were tens of thousands of smart people, money was available, everyone had the desire to make money, yet look at what happened [to the prices of junk bonds]. Extraordinary things happened. Can these be the same people [buying such bonds yielding 6% today] who let them sink to such levels?

Wall Street is awash in money and talent, but you get these absolutely extraordinary swings. It doesn't happen with apartments and other types of assets.

At the minimum, you want to protect yourself from this type of insanity from wiping you out – and better yet, make a profit from it.

- *Source: BRK Annual Meeting 2004 Tilson Notes*

- *URL:*
- *Time: 2004*

back to the questions.

There are discounts in the fixed income market. Will you take advantage?

We have seen some important dislocations. I've brought some figures. [Buffett grabs a stack of printouts.] Tax exempt money market funds [auction facilities]. $330 billion of them. Repricing of first-grade munis every 7 days. LA County Museum of Art. Jan 24th: 3.1%. Jan 31st: 4.1%. Feb 7th: 8%. Feb 14th: 10%. Fell back down to 3% on Feb 21st. Now 4.2%. Somehow, rates were much higher on Valentine's Day. Look at the bid sheet of Citigroup. Repricing every 7 days. You would find the same issue on several different pages. The same broker, at the same time, was quoting different prices on different pages for the same issue. On one page we bid 11%, and someone else bid 6%. You found this in 1974, and after LTCM [the 1998 Long-Term Capital Management blowup]. These are great times to make extra money. Auctions in esoteric securities. We have $4 billion invested in it.

We will have made some insignificant money in this for a few months. There may be opportunities that we can't spot. If you have enough time, you can figure out some things that are really mispriced. We don't play with that; we just don't have enough time. If you spend enough time you may find those that Charlie and I can't find because we just can't look at that many things.

CM: What is interesting is how brief these opportunities are. Some idiot bought munis, bought 20x what he could afford on an incredible margin. Those things were dumped on margin calls and suddenly got really mispriced. The dislocation was very brief, but very extreme. The moves are fast and short. You must think fast and resolutely. You have to be like a man who stands by a stream where fish come by once a year.

WB: 2002 junk bond market happened. CM: Very big dislocations happen about twice a century. WB: That means we only have four or five times we can do it. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Can you give us your insights on the oil and silver markets?

He asked you, Charlie!

[CM: The price of oil eventually has to go up. It doesn□'t mean you can make money on it, once you figure in the interest cost.]

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

Investing in ethanol?

Charlie and I do not know enough about the [ethanol production] business to evaluate it. We've been approached many times and they're quite popular, but trying to figure out the economics of an ethanol plant will depend on government policy and a lot of other variables we're not good at predicting. It's also a very hot area for investors right now, and our general experience is that we don't participate in things that are hot and easy to raise money for.

I have a brother who's on the ethanol board of Nebraska and [if he becomes richer than me, I'll reconsider my views on ethanol]! [Laughter]

There's no question that ethanol usage will grow. But generally speaking, agricultural processing – companies like Cargill and ADM [Archer Daniels Midland] – have not been great businesses and have not earned high returns on tangible capital. Ethanol could prove to be an exception, but I'm not sure how you gain a significant competitive advantage with any particular ethanol plant.

[CM: My attitude is even more hostile than Warren's. I know just enough about thermodynamics to understand that if it takes too much fossil-fuel energy to create ethanol, that's a very stupid way to solve an energy problem. [Laughter]]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

Munger: Even McCain has had a counter-revelation: he's decided ethanol is wonderful, now that he's recognized that that's how they think in Iowa. [Laughter]

I think the idea of running vehicles on corn is one of the dumbest ideas I've ever seen. Governments, under pressure, do crazy things, but this is among the craziest. Raise the cost of food so you can run these autos around? You use up just about as much hydrocarbons making ethanol as it produces, and its cost doesn't even factor in the permanent loss of topsoil. I love Nebraska to the core, but this was not my home state's finest moment.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

Any comments on commodities?

I don't think there's a bubble in agricultural commodities like wheat, corn and soybeans. But in metals and oil there's been a terrific [price] move. It's like most trends: At the beginning, it's driven by fundamentals, then speculation takes over. With copper there was a little shortage and then people got worried [and then the price skyrocketed]. As the old saying goes, "What the wise man does in the beginning, fools do in the end." With any asset class that has a big move, first the fundamentals attract speculation, then the speculation becomes dominant.

Once a price history develops and people hear that their neighbor made a lot of money on something, envy sets in and that impulse takes over. We're seeing that in commodities – and housing as well. Orgies tend to be wildest toward the end.

But you never know when it will end. The eyes of the world that never looked at silver at $1.60 are now looking at it. [The price of silver today is around $14/oz.] My guess today is that copper is responding more to speculative pressures than fundamentals.

[CM [dripping with sarcasm]: I think we've demonstrated our expertise in commodities, if you look at our activities in silver. [Laughter]]

I bought it very early and sold it very early. We made a few dollars. We're not good at figuring out when a speculative game will end.

It's like Cinderella at the ball. At the start of the party, the punch is flowing and everything's going well, but you know that at midnight everything's going to turn back to pumpkins and mice. But you look around and say, 'one more dance,' and so does everyone else. Everyone thinks they'll get out right at midnight.

This is what's happening with copper today, Internet stocks in 1999 and uranium stocks in the 1950s. The party does get to be more fun – and besides, there are no clocks on the wall. And then suddenly the clock strikes 12, and everything turns back to pumpkins and mice.

We had a lot of silver at one time, but we don't have it now. My original decision was that the production and reclamation of silver were running at 100 million ounces less than the consumption. Now a lot of consumption has gone down, for example in photography, but that's where a lot of reclamation is as well, so it balances out. Silver was out of balance, but there's now a lot above ground and a huge amount could be removed from other uses, which could increase supply, which is what happened when the Hunt brothers tried to corner the market in the early 1980s [actually 1979-80].

There are few pure silver mines – most silver is produced as a byproduct from other mining – so it's not easy to bring on added production. I thought silver would get tight. I was early and sold early.

[To the questioner:] You're right that a commodity doesn't earn anything, so unlike a company, in which earnings are accumulating every year, you have to sit with a commodity and hope for a shift in the supply and demand. It's a big drawback.

[CM: We didn't get where we are by owning non-interest-bearing commodities. It's a good habit to trumpet your failures and be quiet about your successes.]

Well, we have a lot of to trumpet then! [Laughter]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[RE: Investing in silver]

I'm not sure who we sold our silver too, but whoever bought it was a lot smarter than I was. I bought it too early and sold it too early, but other than that it was a perfect investment. [Laughter] Charlie had nothing to do with it – it was all me.

Munger: I think we demonstrated how much we know about silver. [Laughter]

Buffett: When we bought it, we got a lot of letters about conspiracy theories of one sort or another. Silver responds to supply and demand, like any commodity, which is what determines its price (although the Hunt brothers changed that for a short while and regretted it).

[Q - Have you considered investing in metals to protect the company against inflation?]

We would not necessarily view metals investing as protection against inflation. The best protection is your own earnings power, whether the currency is in seashells or paper money. A first-class surgeon or teacher will do alright in terms of commanding the earning power of other people. The second best protection is owning a wonderful business, not metals or raw materials or minerals.

The truth is, if you own Coca-Cola or Snickers bars or anything that people are going to want to give a portion of their current income to keep getting, and it has low capital-investment requirements, that's the best investment you can possibly have in an inflationary world.

But an inflationary world is not a good thing. We try to own good businesses. I think Berkshire wouldn't do as well in real terms during periods of high rates of inflation vs. low rates, but we'd probably do better than most businesses.

We have no opinion on commodities. If we're in an oil stock, it means we think it offers a lot of value at this price. If we think oil is going up, we could buy oil futures, which we did once.

We think Posco is the best steel company in the world. When we bought it, it was at 4-5x earnings, had a debt-free balance sheet and was the low-cost producer.

You can find some businesses with minimal capital investment. See's Candy does not require much capital investment. It's a small business, but a wonderful business – a far better business, adjusted for size, than any steel or oil business. We do everything we can to make it bigger.

We do not have a bias toward any commodity-related business. If we have any bias, it's against.

Munger: We're going to be investors in businesses, not commodities, and that has to work better over time.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

What are the future trends in coal? Does the cost advantage outweigh the environmental impact?

WB: In the short term, the world will use more coal. There is an environmental disadvantage to it. We will slowly figure out ways to do things coal does now that are environmentally more friendly. But it won't happen fast. If you shut down coal plants, we wouldn't be able to hold this meeting. At MidAmerican, we have put in a lot of wind capacity, probably more than anybody. But we are dependent a lot on coal, and now it is cleaner than it was. It is a worldwide problem, with the Chinese building a lot of coal plants. Per capita, Americans have done a lot of negative things to this planet, so it is hard for us to preach. It will take a leader who can lead on this.

CM: I ask the people who are very against coal, 'which would they rather use up first, coal or hydrocarbons?'

Coal is less desirable as a chemical feedstock to feed the world. [So, oil is more important to feeding the world]. There is an environmental reason for pro-coal use. Most people don't think this way, but I do.

WB: Charlie doesn't take comfort in numbers [having the herd agree with him].

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Could you comment on your currency position?

We have about $21 billion in about 11 foreign currencies. We have $60-70 billion in things that are denominated in US Dollars. We still have a huge US bias. If Martians came down with currency certificates and could choose any currency on earth, I doubt it would be 80% in US Dollars.

We are following policies that make me doubt that our currency will not follow a downward spin. We lost $307 million this quarter. The net gain since we started holding foreign currencies in 2002 is $2.1 billion. We have to mark these future contracts to market daily. If we owned bonds instead of sterling forward contracts, it wouldn't fluctuate around so much.

Identifying bubbles is fairly easy. You don't know how big they will get and you don't know when they will pop. You don't know when midnight will hit, but when it does, it turns carriages to pumpkins and mice. What markets will do is pretty easy. When they will do it is more difficult. Some people want to stick around for the last dance, and they thought that a bigger fool would be just around the corner tomorrow.

When we bought those junk bonds, I didn't know we would make $4 billion in such a short time. It would have been better if it wouldn't have happened so quickly, as we would have gotten a bigger position.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Do you hedge and what are your thoughts on the U.S. dollar?

WB: We are happy to invest in businesses overseas, as I don’t think currencies will depreciate in a big way. We could offset but, overall, the US is following policies that will make the US dollar weaker. I’d bet weaker over the next 10 years, so we feel no need to hedge earnings generated overseas. If I landed from Mars today, with a billion Mars dollars, and was thinking about where to put money... What would I like to exchange? I wouldn’t put one billion Mars dollars into US dollars. I don’t mind earnings overseas. We own 200 million shares of Coca-Cola. That is $600 million of earnings to us, and $500 million of that comes from the rest of the world. I think it’s a net plus over time. We are not in the business of hedging currencies.

CM: Nothing to add.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

Buffett: I will guarantee you that the dollar will buy you less 5, 10, 20 years from now. The same thing is happening around the world, so it’s difficult to predict [the outlook for] dollars versus other currencies. Governments around the world are running very significant deficits—appropriately—to offset the recession. So the relative effects are unpredictable. Policymakers do not know the outcomes of today’s actions. We are doing things to lose purchasing power. You can bet on inflation.

Munger: In my life I have had the most privileged era to live in. I remember 2¢ postage stamps. A little inflation won't ruin the lives of any of us. The trick is to avoid galloping inflation. That's a problem Warren and I are going to quit claim to the next generation.

[The Dollar vs. the Euro. - a shareholder from Ireland asked whether the gains from any European acquisitions could be adversely affected by a loss in value of the U.S. dollar versus the Euro.]

Buffett: I'm no good at predicting the dollar versus the Euro. You can hedge currencies, but I don't recommend it.

Munger: You're pretty good.

Buffett: We did make a couple billion. [laughter] We'll keep doing things that make sense. There are a lot of companies we feel comfortable with. We have a lot of indirect sources and direct sources of earnings outside the U.S., but no predetermined goal by location. Some opportunities will be found abroad, some won't. We don't wake up in the morning saying we want to have more [investments] in Germany or Spain.

Munger: There's plenty of wrong on both sides of the Atlantic; plenty wrong and plenty right. It's not clear that our messy details are any worse than Europe's messy details.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What are your views on the dollar?

My views [on the likelihood of the dollar weakening] are as strong as ever, perhaps a bit stronger. It's almost certain that the U.S. currency will weaken over time as a result of the fiscal and monetary policies we're currently following. I don't know about the next six months, but certainly over time.

We are doing less directly in currency futures because the carry costs have gone from positive to negative. In my view, there are considerably better ways to protect against the dollar getting weaker in the future. For example, we like to invest in companies, like Iscar, whose earnings are primarily in other currencies. We earn a lot of money in other currencies.

[Buffett read a quote about the dangers of running a large current-account deficit that ended, “Countries that have gone down this path inevitably run into trouble.”] Guess who said that? Alan Greenspan. When he said that in 2002, the current account deficit was $385 billion. Now it’s double that. In his later years as Fed chairman, he didn’t emphasize this view as much, but he didn’t repudiate it either.

It’s going to lead to trouble. People talk about a soft landing, but they don’t ever say how. [Current Fed Chairman Ben] Bernanke said he expects a soft landing, but also said there’s the possibility of something worse.

One possible outcome is significantly higher inflation. As you owe more and more, it’s tempting to devalue the currency in which the debts were incurred.

Munger: Generally speaking, it can’t be good to be running a big current-account deficit and a big fiscal deficit and to have both growing. A great civilization may be able to stand something like that for a longer period than you’d imagine at the outset, but you’d think at the end there’d be a comeuppance and you’d have to adjust and it would be painful. Do you agree Warren?

Buffett: Yes. I don’t see how people say it’s sustainable.

The longer it goes on, the greater the net debt position builds up and the more people see it. And then something perhaps extraneous causes some big adjustments to take place and the result is chaos, in which currency adjustments play a part. But it’s impossible to predict this.

Years ago, portfolio insurance was popular. People were selling this as a sophisticated way to manage money and mitigate risk – and they earned a lot selling it. Then October 19, 1987 came along. A relatively small portion of American investments were being guided by this doctrine, but just this small amount of money was the leading factor in a 22% one-day drop [in the Dow]. Everyone thought they were being reasonable, but they created a doomsday machine.

I think the odds of something like this – though not this exactly – is magnified today compared to the 1980s. I don't know who will yell fire, but when it happens, I'm sure the currency markets will play a role in the race for the door.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Early on in you career you bought some land and then rented this out to some local farmers? Why didn't you pursue this type of investment in real estate?

I made an initial investment farm real estate when I was 14. Someone else handled the whole transaction; I just bought 40 acres. A guy would farm the land and harvest X number bushels of soybean and sell if for $X per bushel at the market and say here is your check. I did virtually nothing for this investment. I had no idea if he actually harvested what he said he did, or if he sold the bushels he said he sold, or for that matter what price he sold it at. It's kind of like the guys who kept all his cows in with a big herd. As they are taking them to market, the owner of the big herd says, sorry but all of your cows died. How would you know which cows were yours?

In 1980 with the S&L crisis, land was selling for $2,000 an acre. Well, an acre produced 120 bushels of corn or 45 bushels of soybeans. At a couple dollars a bushel, this was basically $80 an acre in revenue. At the time with the interest rates, you would pay $150 per acre in interest. So you were taking in $80 and paying out $150, it just did not make sense. The bankers went crazy lending money at $2,000 an acre prices for farms at 10% interest rates to produce $80 an acre in crops. Well after a bunch of people lost big time, the FDIC took control of the farms and ended up selling them at $600 an acre, which at the time was a good deal. The FDIC took over hundreds of farms because people went crazy and lost their shirts.

The S&L's lost their fundamentals and the Government owned $100 million worth of properties they needed to dump at a low cost. This was an opportunity to make some money, however I still don't like farms because they are too passive.

I still don't like farming. My son likes farming, I don't.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

Accounting, Corporate Finance, and Investing

What adjustments to reported earnings do you make?

[When goodwill was required to be amortized,] we ignored amortization of goodwill and told our owners to ignore it, even though it was in GAAP [Generally Accepted Accounting Principles]. We felt that it was arbitrary.

We thought crazy pension assumptions caused people to record phantom earnings. So, we're willing to tell you when we think there's data that is more useful than GAAP earnings.

Not thinking of depreciation as an expense is crazy. I can think of a few businesses where one could ignore depreciation charges, but not many. Even with our gas pipelines, depreciation is real -- you have to maintain them and eventually they become worthless (though this may be 100 years).

It [depreciation] is reverse float -- you lay out money before you get cash. Any management that doesn't regards depreciation as an expense is living in a dream world, but they're encouraged to do so by bankers. Many times, this comes close to a flim flam game.

People want to send me books with EBITDA and I say fine, as long as you pay cap ex. There are very few businesses that can spend a lot less than depreciation and maintain the health of the business.

This is nonsense. It couldn't be worse. But a whole generation of investors have been taught this. It's not a non-cash expense -- it's a cash expense but you spend it first. It's a delayed recording of a cash expense.

We at Berkshire are going to spend more this year on cap ex than we depreciate.

[CM: I think that, every time you saw the word EBITDA [earnings], you should substitute the word "bullshit" earnings.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Recommendation of a book on accounting?

I haven't read an accounting book in years. I think I read Finney[?] in college. I'd suggest reading Berkshire reports and things like magazine articles about accounting scandals. You need to know how figures are put together, but also have to bring something else. Read a lot of business articles and annual reports. If I don't understand it [an annual report], it's probably because the management doesn't want me to understand it. And if that's the case, usually there's something wrong.

[CM: Asking Warren what good books he knows about accounting is like asking him what good books he has on breathing. You start with basic rules of bookkeeping, and then you have to spend a lot of time [to really become knowledgeable]].

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

What can be done to improve the accuracy of financial statements of financial institutions?

What can be done to improve the integrity of financial statements?

WB: It is a very tough thing. I still lean strongly towards fair value accounting—it is hard to use, but should we use cost? I think there are more troubles when you start openly valuing things at prices that don't matter instead of best estimates, even if inaccurate. I would stick with financials reporting assets at fair value. When you get into CDO-squared [Collateralized Debt Obligation-Squared], the documentation is enormous. If you read a standard residential security prospectus it consists of thousands of mortgages, then different tranches. Then, you take a CDO and you take junior tranches on a whole bunch of juniors— put them together, and diversified in theory—a big error to start with. That was nuttiness squared. You had to read 15,000 pages to understand a CDO and 750,000 pages to evaluate one single security in a CDO-squared. To let people use the 100 cents they paid as the stated value versus the 10 cents it trades at in the market is an abomination. Fair value discipline, mild as it may be, may keep managements from doing some stupid things. I lean toward the market value approach. When you get towards complex instruments, I don't know how you value it. Charlie, back at Salomon, I think you found one mismarked by $20 million, right?

CM: A lot goes on in the bowels of American industry which is not pretty. A lot of people got overdosed on Ayn Rand. They would hold that even an axe murderer in a free market is a wise development. I think Alan Greenspan did a good job on average, but he overdosed on Ayn Rand, in that whatever happens in a free market is going to be all right. We should prohibit some things. If we had banned the phrase, "this is a financial innovation which will diversify risk," we would have been far better off.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Would you comment on companies you say use questionable accounting practices to make their operations look good?

We follow a policy of “criticize by practice, and praise by name.” You could say we hate the sin, but love the sinner. So I can’t really name names of companies that I think are doing this kind of thing; I’ve found that if you go around criticizing others, pretty soon the criticism comes back on you.

[CM: I don’t think they want names - I think she’s asking about the practice in general.

That’s different, then. The practices relate to accounting charges, done to smooth out earnings and make future earnings look good. It has become totally fashionable among managements to play with the timing of expenses.

Options expense recording has become optional as well; I haven’t seen tons of firms jumping on the chance to record stock compensation expense. And I think it’s deceptive to see it presented in the footnotes, the way it’s reported, because of the assumptions companies are using in valuing the options.

The thinking of these executives goes like this: “ Why should I penalize my shareholders for not doing something that others will do to help theirs?” And the bad practices become the norm.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[CM: I certainly hope that we're better underwriters than Munich Re.]

Let's not name names. Munich Re is a fine company. Our policy is that we compliment by name and criticize anonymously. They [Munich Re] lost their AAA because they were too exposed on the asset side -- they would tell you this. They have an important position and we do a lot of business with them.

Some reinsurers we won't do business with. If there were a major financial or natural catastrophe, there are a number of reinsurers who wouldn't pay.

- *Source: BRK Annual Meeting 2003 Tilson Notes*

- *URL:*
- *Time: 2003*

[back to the questions.]

What does it mean to own stock in a company?

Owning stock in a company means that you own a piece of that company. If you own stock in the McDonald's company for example, it means you are one of the owners of McDonald's. Each piece of stock is called a share, and the more shares you own, the more of the company belongs to you. When the company is successful, your stock will become more valuable, too.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

Where can you buy stock with the cheapest commissions?

There are many places to buy stocks, and the commissions all vary. It is important in life to look not for what is cheapest, but where the most value is delivered. I suggest that you ask your parents if they can check some of them out with you. Maybe you can make a chart where you can compare the costs on one side, with the services offered on the other. It will be a good exercise, and whether you buy stocks or not, you will learn from the process.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

How do you know when you are going to lose money and when you aren't? Since the stock

market changes every minute.

That is a very good question. The answer is you don't know when you are going to make money or lose money. You are right, the stock market changes every minute. Because of that, you should never buy a stock expecting to make money in the short term. When you buy a stock, you are actually buying a share of that company. If it is a good company then you will make money over time as its value goes up. When you buy a stock, you need to imagine that the stock market will be closed for 20 years and you will not be able to look at its price. That way, you wont be distracted by the short term ups and downs. A company will be successful if it offers good products and services at a fair price while being run by honest, capable managers. Over the long run, such companies tend to appreciate and go up in value.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

What's the role of the board of directors?

Most writers and shareholders probably have a little bit of a distorted view of how most large corporations have operated over the years. For a long time, most directors were sort of like potted plants. Management had its agenda and didn't want input on major matters and Charlie and I can testify that we've had very little success in influencing big issues. If someone's spent 20-30 years rising to become CEO, they don't want a board telling them what to do. It's changed a little bit today in terms of process.

Overwhelmingly, the most important job of the board is to pick the right CEO. If you were on the board of Cap Cities and you hired Tom Murphy, case closed.

The second most important job of a board is to prevent the CEO from overreaching. A board should bring independent judgment on acquisitions. There's a natural tendency for CEOs to want to become bigger by spending other people's money. The deal is already done by the time the board knows about it. The investment banker comes in and I've never seen a banker say, "This is a dumb idea."

When a significant deal comes along, it's a chance for the board to weigh in and discuss the economics of what's going on. But the CEO doesn't bring a deal unless he wants it done and so he stacks the deck.

Munger: I think big deals, on average in America, are contrary to shareholders' interest.

Buffett: In most stock deals, the CEO thinks about what he's getting, but not what he's giving. You have to make sure you think about this. I can't ever think of a discussion [when I was on a board] of weighing what you're giving away vs. what you're getting in a stock deal. If more value is being given away, then don't do it! When I gave away 2% of Berkshire to buy Dexter shoes, it was one of the dumbest things ever. Not 2% of Berkshire then, but 2% of Berkshire today!

Munger: Fortunately, you've made some good decisions.

Buffett: Or half of you wouldn't be here. It gets swept under the rug.

We owned a bank that went to acquire a smaller bank. The CEO of the smaller bank held out for a high price and various terms and conditions and, because he was taking stock, had one last condition for the acquiring bank: "Promise never to do a deal this dumb in the future." [Laughter]

I've been on some terrific boards. The best was probably a local business, Data Documents. Every board member had a significant percentage of his net worth in the company and every decision was made for business reasons.

In contrast, the standard now is when deal is possible, trot in the investment bankers. I know the answer: they always say, "This is a great deal."

At Berkshire, almost everyone on the board has a lot of Berkshire stock. They're in the same position as shareholders. They don't have D&O [Directors and Officers] insurance and they bought the stock in the open market. It's a real owners board.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*

- *Time: 2007*

back to the questions.

Your thoughts on EBITDA?

It amazes me how widespread the use of EBITDA has become. People try to dress up financial statements with it.

We won't buy into companies where someone's talking about EBITDA. If you look at all companies, and split them into companies that use EBITDA as a metric and those that don't, I suspect you'll find a lot more fraud in the former group. Look at companies like Wal-Mart, GE and Microsoft -- they'll never use EBITDA in their annual report.

People who use EBITDA are either trying to con you or they're conning themselves. Telecoms, for example, spend every dime that's coming in. Interest and taxes are real costs."

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

back to the questions.

Opinion on share buybacks? and dividends?

The equation is simple, but practice doesn't always follow logic. Assuming you've been honest with shareholders [in communicating enough information so they can estimate intrinsic value], then if your stock is far below intrinsic value, buying it back adds a lot of value. The Washington Post did this and Teledyne bought back 90% of its stock over time.

Today, stock buybacks are popular. The underlying rationale – not the professed rationale – is that people hope the stock price won't go down. But often this doesn't make sense for shareholders. If the stock is underpriced, buy it back with excess cash; if it's overvalued, don't buy a single share.

If we wanted to return cash to shareholders, we'd go to them and say, "Our stock is cheap and we're going to return cash to you by buying it back."

In terms of dividends, you get into an expectational problem. Most public companies don't bounce around their dividend from year to year (although this is very common in private companies and Berkshire subsidiaries) because investors come to rely on it. So once you establish a dividend policy at a public company, think a long time before changing it.

[CM: The total amount paid out in dividends is roughly equal to the amount lost in trading and investment advice, so net dividends to shareholders are zero. This is a very peculiar way to run a republic.]

In a Fortune article I published in 1999 [Mr. Buffett on the Stock Market, 11/99], the frictional costs are equal to the total amount paid out in dividends.

Companies should be paying out dividends. Take See's Candies: we haven't figured out a way to grow it, so we can't reinvest, so something approaching a 100% payout [of profits] would make sense [were it a public company]. Most managements want to ensure regularity [of dividends], so they go with a conservative level [below 100%].

We think about this at Berkshire. If we didn't think we could put it [all of our excess cash] to work, then we'd pay it out. But we expect – and this is reasonable, I think – that we will have the chance to put it to work.

[If we decided to return cash to shareholders and] if our stock wasn't underpriced, then we'd probably pay out a dividend – but don't count on it anytime soon.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

One reason not to pay a dividend is taxes, but we've always said that even if we could have paid a tax-free dividend, we would not have done so. Our test has been whether, if we retain a dollar, will it be worth more than a dollar in present value. So far we've always passed this test.

But it's no fun sitting on $40 billion, which earned less than 1% last year after tax. The burden of proof will shift in the next few years. We always ask, "Can we use the money effectively within our business?" So far, the answer has been yes. This will be discussed at our board meeting on Monday.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

Most of the time, we wouldn't be able to buy an amount of our stock that would be material to our remaining shareholders. We probably have less opportunity to do so than other large companies.

[Buffett then put up this chart, which showed share turnover last year for the following companies: Berkshire Hathaway 14%, Exxon Mobil 76%, General Electric 48%, General Motors 487%, Wal-Mart 79%]

Look at these turnover figures. I think Berkshire has lower turnover by some margin than any major company in the U.S. I put Wal-Mart up there because the Walton family owns more of Wal-Mart than I do of Berkshire, so [our low share turnover is] not just because of that.

Our shareholders are long-term and loyal owners. We have the most honest-to-god attitude of ownership of any public company. People buy it to own it. It does mean that if it gets cheap, we won't be able to buy much. But that's OK. We're not looking to make money off shareholders by buying them out at a discount.

The motivation for buying back stock used to be just because companies thought their shares were cheap. Thirty or forty years ago, it was very fertile to invest in companies that were buying back their stock. The most extreme case was Teledyne – we made some money investing there.

But that's being swamped today by companies doing it because it's in fashion or to prop up the stock. The SEC has rules to prevent propping up the stock on a daily basis [but companies still try to do it]. We wouldn't do it for those reasons.

A few years ago, when we were willing to buy back our stock, the fact of writing about it [in the 1999 annual letter, page 16] eliminated the opportunity.

[It’s very interesting that Buffett had this slide prepared in advance. I think it’s because he knows his stock is cheap – we think it’s as cheap as it was on March 10, 2000, the only time he’s ever been willing to buy it back – and the company is much stronger and has a much brighter outlook than it did then. Buffett no doubt expected that he might catch some flak from shareholders for not announcing a buyback, but rather than addressing that question directly, he chose to deflect it by basically arguing that even if that would be the best use of Berkshire’s capital right now, the stock is too illiquid to buy back much stock anyway.

All of this being said, even if the stock were more liquid, I’m not pounding the table for share repurchases in light of the acquisition of Iscar. I’m drooling at the prospect of more acquisitions like this one – as are, I’m sure, Buffett and Munger.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Q - You've previously encouraged companies to repurchase stock. Please could you address the issue of Berkshire buying back its own shares?]

Buffett: My comments go back a lot of years. I haven’t written about other companies repurchasing in about 10 years. Repurchases in recent years were foolish, because they paid too much. They were trying to give out buy recommendations that weren’t justified. In the 1970s and 1980s, we encouraged others to repurchase because [shares] were demonstrably cheaper than anything else. We only felt in 2000 that we wanted to do so, because Berkshire’s intrinsic value [didn’t match] its stock price. But it was self-defeating [the announcement of Buffett’s intention to repurchase sent Berkshire’s stock higher]. [Repurchases] should be quite compelling, and that doesn’t exist now. Ninety percent of repurchases in the last five years were at silly prices and not in the interest of shareholders. Managers did it because it was what everyone else was doing. It’s interesting how many companies bought at two times current prices that aren’t [buying] now.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Why do you not believe in dividends when Benjamin Graham believed in them?

WB: I had to show a little individuality. [laughter] I do believe in dividends, including dividends at companies where we own stock. The test on dividends is, 'can you create more than one dollar of value with the one you retain?' It would be a mistake for See's to retain money because they have no ability to use the cash they make to generate a high return internally. We hope to move the capital to a place where it will be worth $1.20. If we do that, taxable or not, they are better off if we retain money. But when the time comes that we don't think we can use money effectively, we will pay it out. But because we have the ability to redistribute money in a tax-efficient way within the company, we have more reason to retain earnings in the company. We like companies where we have investments to pay to us the money they can't use effectively.

CM: Costco paid no dividend when they were growing rapidly. As St. Augustine said: "God give me chastity, but not yet."

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[Q - From 2003 through 2008, Berkshire's market price didn't increase by the amount of retained earnings, why don't you change Berkshire's dividend policy?]

Buffett: If we had to sell our business on December 31, 2008, we would have had a loss. Reinvested earnings did not produce [gains]. We use book value as a proxy for business value. We measure against the S&P 500—our intrinsic value has never had a five-year period when we underperformed the S&P 500.

Munger: I don't get too excited about these oddball things that come along once in 50 years. I think Wells Fargo [for example] will come out of this mess much stronger.

Buffett: In a terrified market, Wells Fargo got to below $9—when aspects of their business were never better, and their business model is fabulous. Pushed by a student, I said that if I had to put all of my money in one stock, it would be Wells Fargo at $9.00. Wells will be a lot better off a couple of years from now than if all this business had never happened, unless they have to issue lots of shares, which they shouldn't. You never want to be in a position to have to sell [due to a margin call] or emotionally. Why would someone sell Wells Fargo at $9.00 when they bought it at $25.00, and now it's better off? It's crazy. I own a farm about 30 minutes from here, and if you own a farm, you don't get a price on it every day. Look at the asset for value, not the price—as you would with a farm. People let the stock price, not business results, [affect their assessment of a company]. Read Chapter 8 of The Intelligent Investor. The fact that a [price] quote is available every day turns into a liability.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Your thoughts on inflation?

The best thing to combat the threat of inflation is to have a lot of earnings power of your own. If you're the only surgeon in town, you'll be OK [because you can simply raise your prices to keep up with inflation and people will pay it]. Charlie and I think it's best to own fine businesses that can price in inflationary terms and don't require big capital investments. See's Candies can handle an inflationary world and maintain value.

Unfortunately, most businesses will not come out well in real terms. Earnings might be up, but the business will be compelled to invest more and more dollars into the business to stay in place. The worst businesses compel you to put more and more in, without any rise in profits.

TIPS [Treasury Inflation Protected Securities] are not a bad investment for people worried about inflation heating up, which we're seeing signs of.

[CM: Most people will see declining returns [due to inflation]. One of the great defenses if you're worried about inflation is not to have a lot of silly needs in your life – if you don't need a lot of material goods.]

Buffett: Charlie, we're selling a lot of material goods in the other room, so keep quiet. [Laughter.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

The talk of deflation was total nonsense.

You would think that the trade deficit, which has resulted in a weaker currency, would have led to higher inflation.

The price of oil has risen far more in dollars than in euros.

So, inflation matters. It's always there and is something we think about. But See's Candies will do fine in an inflationary environment.

[CM: So far, the weak dollar has acted to restrain inflation.]

Yes. For example, we're paying less for shoes, few of which are made in the U.S. anymore.

We don't want to be long the long bond [e.g., he thinks there's risk of rising interest rates].

But if you'd told me two years ago what the macro conditions would be today, I'd have been very surprised by where interest rates are today [i.e., he thought they'd be higher].

[CM: There won't be an automatic correlation between interest rates and inflation – there will be weird things.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[Q - An 11-year-old from New Jersey asked how inflation will affect his generation. How is Buffett preparing for inflation?]

Buffett: Inflation is going to affect you. Long term, even a small amount is bad. It's certain we'll have inflation over time. Volcker opined against an FOMC [Federal Open Market Committee] 2% target for inflation. It is something of a slippery slope. Current policies are bound to have inflationary consequences. Inflation is a classic way to reduce the cost of external debt. Federal revenues are going down. Politicians say that taxpayers pay for this or that, but if taxes are less now, who's paying? The real payers are [those affected by] the shrinkage of the value of the dollar down the road. The people who are really paying are those that are buying fixed income investments now—the Chinese, for example. That's the ultimate price of stimulus. The easiest thing to do [inflate] is the likeliest. The best protection from inflation is your own earning power. The second best is owning a wonderful business, such as Coke, that doesn't require capital. With Coke, you'll get your share of national earnings.

Munger: The young man should become a brain surgeon and buy Coke stock, not [government] bonds.

Buffett: I get paid by the word. He doesn't. [laughter]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

[PIMCO's] Bill Gross has written about whether inflation is being captured correctly. If you go out to the Nebraska Furniture Mart, you'll see that prices haven't moved up much over time. And in some areas, like DVD players, prices are down 75%, so there's been deflation.

But when I see that "core" inflation excludes food and energy, I can't think of anything more core than food and energy. Also, the CPI [consumer price index, the official measure of inflation] uses a computed rental price, but this does not reflect new housing prices. The rental factor has significantly lagged the rise in housing.

But if you own your own house and drink Coke, you're less affected – my CPI, for example, hasn't changed very much. But if you're buying a house and drive 40 miles to work every day, your CPI has gone up a lot.

Munger: I see almost no change in the price of the composite product that flows through Costco [Munger is a Director of Costco]. I don't feel sorry for the people who pay $27 million for an 8,000-square-foot condo in Manhattan. So inflation comes in places.

Buffett: Costco's and Wal-Mart's LIFO adjustments are almost nothing – it's inconsequential. [LIFO stands for "last-in, first-out", and means that when a product is sold from inventory, its cost is based on the price paid for the latest such items purchased by the company. If the cost of the product is rising rapidly, this can cause the old inventory to become valued at less than the current market cost, necessitating a LIFO adjustment. In contrast, if there's no inflation, the LIFO adjustment is nil.] You're dealing with $200 some billion in sales at Wal-Mart and the LIFO adjustment would pick up any inflation [but it's not there].

In our jewellery stores, there have been big LIFO adjustments recently. It's the same with our steel operations. Carpet prices went nowhere for 20 years, but because it's petroleum based, it's moved up a lot recently and now we have $100 million or so in LIFO adjustments.

Overall, for a typical young family, the CPI probably understates inflation in terms of their living situation.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Q - Inflation problem you talked about in 2008 letter, but you didn't mention inflation in 2009 letter. Why?]

WB: I may be biased, as I have always worried about inflation. And there has been a lot of inflation. I was born in 1930 and the dollar is down 90% since then but we've done okay. I think prospects for inflation around world have increased. Situations that governments have been forced into or allowed to embrace may cause it. Weaning ourselves from medicine may be harder than original illness, there is massive debt. I don't see any way countries running high debt to GDP over time doesn't have diminution of currency over time. I wrote OpEd in NYT last year. I would bet on higher inflation, and maybe a lot higher.

CM: Again, I agree.

[Q - What are key metrics you look for on inflation, and catalysts for a future rise?]

WB: You give me credit for more brainpower than I actually bring to the question. You can't look at any metric. If it gets going, it creates its own dynamic and is very hard to stop. We saw it in 1970s until Volcker came in with a sledge hammer. Prime rate was at 21% and governments up to 15%. We had a demonstration project 30 yrs ago. If we continue today's policies, something like that could be possible. Trend is not destiny. We have power to control our future. We do it through elected representatives If inflation gets into saddle, faith in institutions could break down.

Currencies are a poorer bet than they have been in a long time but I do not know what that means for the near future. Remember that your money can be inflated away but your talent cannot. As long as you are the best at what you do you will be entitled to your portion of profits.

CM: Contribute the most to civilization and counter the effects of inflation. To outsmart others isn't the best way to do it. If you are best painter or best brain surgeon, you will always command your share of the economy around you. Talent is terrific asset to deal with it. The best defense is to contribute to the world and to try to make yourself more talented.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Do you see deflation as a threat to our investments?

I have a tough time envisioning a world in which we have to worry about deflation - but I don□'t have much of a record on that, being a macro kind of issue. Deflation, if you think about it, helps investors and savers, because it raises the value of your cash.

Truth is, I don’t know how it would affect us.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

What's your opinion of Enron and creative accounting?

[CM: "Creative accounting is an absolute curse to a civilization. One could argue that double-entry bookkeeping was one of history's great advances. Using accounting for fraud and folly is a disgrace. In a democracy, it often takes a scandal to trigger reform. Enron was the most obvious example of a business culture gone wrong in a long, long time.]

To the extent people will look more carefully at companies, Enron was a plus to the American economy.Enron will have a distinct beneficial effect on auditors, and it was much needed.

[CM: "It will have a distinct beneficial effect on one less auditor.

I think it would have been a shame if Salomon had gone under. Charlie and I may disagree on this one. What about the innocent bottom 40,000 people at Arthur Andersen?

[CM: "I regard it as very unfair, but capitalism without failure is like religion without hell. When it gets this bad and there's a lack of system for control -- which Arthur Andersen didn't have -- maybe a firm should just go down."]

What if we did something terrible? Would it be fair for all of Berkshire's employees to suffer?

[CM: "We couldn't do anything that would bring down Berkshire...Arthur Andersen was particularly vulnerable because it was a partnership. A partnership must be extra careful in its behavior, choosing clients, etc."]

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

Gen Re was discounting Workman's Comp reserves at 4.5% -- figures we inherited. These were not conservative, so we're now using 1% in 2003 and going forward. Thus, our figures [reported profits in Q1] would be even better if we hadn't made this change.

[CM: This accounting change is typical of Berkshire. We're so horrified by aggressive accounting [that is rampant in Corporate America] that we reach for ways to be conservative. It helps our business decisions and protects Berkshire. How did we get in situation where we're all so close to the line?]

I felt much more comfort working with financial statements in the 1960s than today. There was more information then, even through there was less disclosure.

In the case of Gen Re, [having overly aggressive] Workman's Comp reserves was a quick fix, but it's like heroin. Like trade loading, people seek a quick fix. People are encouraged by their CFO or auditors to play with their numbers. It never works, though I guess if you're 64 and a half [years old and about to cash in your stock and retire], maybe it does. It's so much better to address problems.

[In a news conference on Sunday, Buffett was quoted as saying: "You would be amazed how compliant auditors have been in the past decade, not only co-operating but suggesting techniques for making numbers less useful -- less truthful -- to investors."]

The real problem is [accounting for] pension and healthcare liabilities. I've looked at companies recording pension income of hundreds of millions [of dollars] when their pension plan is underfunded by billions [of dollars]. It's the same mentality as stock options.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

Any accounting that gives people a rationale to reduce reserves even further is bad. There’s such a tendency to reduce reserves for long-tailed [insurance] policies – to understate them – especially if the CEO is retiring or options are vesting.

In derivatives, both sides book a profit; this is especially true of traders who are on commission.

We're three years into unwinding Gen Re's derivatives book and you would not believe the complexity. Most of it was marked to market, so you'd think it would only take a few days to unwind.

I don't think any regulator or auditor [has any hope of getting a handle on any big derivatives book].

[CM: The stupid and dishonest accountants allowed the genie of totally inappropriate accounting to descend on derivatives books. And once this has happened – people get status, etc. – it's impossible to get it back into the bottle.

The housewife preparing her toast in the morning just isn't worried about a derivatives blowup.

The people with vested interests in the status quo are very powerful. If you're going to try to fix this, you're going to have a very interesting life.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What's your opinion of day trading?

Buffett: If you take the percentage of bonds and stocks held by people who could change their minds tomorrow based on what the Fed does, etc., it's gone up a lot. I call it an electronic herd, who change what they do every day or minute. The turnover of stocks has gone from 40% to over 100%, and the turnover of bonds has gone up dramatically as well. There's nothing evil about it, but it's a different game and there are consequences. If you're trying to beat the other fellow on a day-to-day basis and you're watching the news or the other fellow, and you think he's going to push the sell button, you'll try to push it quicker.

When Charlie and I were at Salomon, they talked about 5- or 6-sigma events, but that doesn't mean anything when you're talking about real markets and human behavior. Look at what happened in 1998 and in 2002. You'll see it when people try to beat the markets day by day.

When I set up my partnership [the Buffett Partnership], I told my partners they'd hear from me once a year.

Munger: When people talk about sigmas in terms of disaster probabilities in markets, they're crazy. They think probabilities in markets are Gaussian distributions, because it's easy to compute and teach, but if you think Gaussian distributions apply to markets, then you must believe in the tooth fairy. It reminds me of when I asked a doctor at a medical school why he was still teaching an outdated procedure and he replied, "It's easier to teach." [Laughter]

Buffett: It's very disturbing to spend years learning higher mathematics and then learn that that stuff has no utility or that there's even counter-utility. It's hard to change, so people just keep on teaching [incorrect things].

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

What's your opinion on asbestos liability?

Asbestos is a big part of our liabilities. But we are capped, which is a good thing because asbestos continues to explode. Last year, we said it would be worse than anyone expected and it has been and will continue to be. Many companies thought to be insulated are being dragged in.

Asbestos is actually creating some opportunities for Berkshire to buy companies that went bankrupt due to asbestos claims -- free of asbestos liabilities. We probably wouldn't own Johns Manville were it not for asbestos.

It's a cancer on the American corporate world and it's growing.

[CM: "Asbestos has morphed into a situation with enormous amounts of fraud, etc. People with serious injuries are being hurt [as more and more money flows to the plaintiff's bar and claimants with no current injuries]. The Supreme Court has practically invited Congress to step in, but Congress has refused due to the influence of the trial lawyers. I'd be surprised if there's a constructive solution in the next five years. I expect there will just be more of the current mess.

There was a solution, but the Supreme Court didn't allow it.

We've very careful to avoid asbestos liabilities. I'm not worried about our insurance companies [via-a-vis their exposure to asbestos].

You have a plaintiff's bar -- going beyond asbestos -- that will take any human adversity and try to make a profit out of it by suing those with deep pockets.

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

[CM: What's happened in asbestos is that a given group of people get mesothelioma – a horrible cancer that comes only from asbestos exposure and kills people. Then, there's another group of claimants who smoked two pack of cigarettes a day and have a spot on their lung. Then you get a lawyer who gets a doctor to testify that every spot is caused by asbestos. Once you effectively bribe a doctor, then you can get millions of people to sue on fears of getting cancer.

But there's not enough money [to pay all of the claimants], so people who are truly harmed don't get enough. In a southern state with a jury pool that hates all big companies [you get big judgments], but lawyers are stealing money from people who are hurt and giving it to people who aren't entitled. It's a bonkers system, but with federalism [state's rights], there's no way to stop it. The Supreme Court refused to step in.

The Manville [Personal Injury Settlement] Trust [created when Johns Manville went into bankruptcy; it separated the operating company from the asbestos liabilities; Berkshire bought the operating company and the proceeds went into the trust to pay asbestos claims] had more new claims last year than in any year – and the company last mined and sold asbestos 35 years ago.

Trying to buy people off is like trying to put out a fire by dousing it with gasoline. With word processors, lawyers can easily produce countless claimants. But only 25% of the money goes to claimants – the rest goes to the lawyers, doctors, etc.

The only people who can fix it are the Supreme Court or Congress. The Supreme Court – some people would say rightly – refused to get involved [but I say] they chickened out. And Congress, given the politics, has yet to step in.

There's an important lesson here: Once wrong-doers get rich, they get enormous political power and you can't stop it, so the key is to nip things like this in the bud.

It would be easy to fix the problem: the right way is to say we're not going to pay off all these little claims.]

We own Johns Manville and their behavior was reprehensible.

[CM: Johns Manville's behavior was one of the worst in the history of Corporate America – they knew asbestos hurt people and covered it up to make more money.]

We have no connection to this. The Manville Trust has billions of dollars and has been around for close to 20 years.

It didn't have a record number of claims last year due to new injuries. Rather, it's a honey pot. But they're only paying 5% on claims, so the guy who's been drastically injured is only getting a small amount. It's not the right way to do it.

Regarding the proposed legislation [in Congress]: in the end, we didn't support it. It wasn't the answer we needed.

The Supreme Court, when they ducked it, they left a problem that will be around for decades and decades.

[CM: If you want to be cynical, look at the perjury. There are only three solvent companies left [facing asbestos claims], so [surprise!] plaintiffs can only remember those three names [when recalling which products they were exposed to decades ago]. It's a case of perjury being suborned by practicing lawyers.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[CM: There's been terrible behavior by doctors, terrible behavior by lawyers, gutless behavior by courts, and even more gutless behavior by politicians, who [he said something disparaging about them].

You keep hoping that it will get so bad that things will change, that reform will happen. And it can happen: for example, the Workman's Comp system in California. With the Schwarzenegger revolution in California, it's been partly – maybe 15% – corrected. If it gets bad enough, it's possible that it could be fixed.

It's crazy that judges give money to people who smoked two packs of cigarettes a day for their entire lives, are dying, and have one little spot on their lungs.

Even asbestos will eventually go away, but who knows how much damage will be done before the storm passes.

But the behavior is so terrible It's that kind of behavior that makes me talk about [the U.S. being at] the apex of its civilization.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What are your thoughts on short selling?

It's an interesting item to study. It's ruined a lot of people. You can go broke doing it.

You'll see way more stocks that are dramatically overvalued than dramatically undervalued. It's common for promoters to cause a stock to become valued at 5-10 times its true value, but rare to find a stock trading at 10-20% of its true value. So you might think short selling is easy, but it's not. Often stocks are overvalued because there is a promoter or a crook behind it. They can often bootstrap into value by using the shares of their overvalued stock. For example, it it's worth $10 and is trading at $100, they might be able to build value to $50. Then, Wall Street says, "Hey! Look at all that value creation!" and the game goes on. [As a short seller,] you could run out of money before the promoter runs out of ideas."

Everything we've ever thought about shorting worked out eventually, but it's very painful. It's a whole lot easier to make money on the long side. You can't make big money shorting because the risk of big losses means you can't make big bets.

[Munger: "Being short and seeing a promoter take the stock up is very irritating. It's not worth it to have that much irritation in your life."]

We would never short anyway because we're too big.

- *Source: BRK Annual Meeting 2001 Tilson Notes*
- *URL:*
- *Time: April 2001*

[CM: "It's dangerous to short stocks."]

"Charlie and I have agreed on around 100 stocks over the years that we thought were shorts or promotions. Had we acted on them, we might have lost all of our money, every though we were right just about every time. A bubble plays on human nature. Nobody knows when it's going to pop, or how high it will go before it pops.

A.W. Jones, which had a long-short model, developed the best-known hedge fund in the late 1950s and early 1960s. They were market neutral, but didn't stick with it. Something went wrong with A.W. Jones. A very high percentage of its spin-off funds bit the dust. There were suicides and people lost their fortunes and had to drive cabs.

Ben Graham didn't find shorting particularly successful. Quite a high percentage of his paired investments worked, but he lost a lot on the few he lost on.

I had a harrowing experience shorting a stock in 1954. I wouldn't have been wrong over 10 years, but I was very wrong after 10 weeks, which was the relevant period. My net worth was evaporating.

Shorting is just tough. You must bet small. You can't short the whole company. It takes just one to kill you. As it rises, it consumes more and more money.

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: April 2002*

There's nothing evil about short selling. There are people on the short side who have done things to make some stocks go down – some of which is appropriate and some of which is inappropriate. People do that on the long side as well, so I have no ax to grind with short sellers. We have no problem with anyone shorting Berkshire stock. There's nothing I'd like more than to be paid to lend my stock to shorts.

I do think it's a very tough way to make a living, both financially and psychologically. If you buy something at $20, you can lose $20. If you short at $20, you're loss can be infinite.

As you know, we have a friend who's been outspoken on naked shorting [referring to Overstock CEO Patrick Byrne, who used to be President and CEO of Berkshire subsidiary Fechheimer Brothers]. I don't have a great problem with it. If anyone wants to do that with Berkshire, more power to 'em.

Companies with a large short interest very often have been revealed as frauds or semi- frauds – not the one my friend runs. Over the years, I've probably had 100 ideas of things to short and I would have eventually been right [on almost all of them]. But [because it's so hard to get the timing right,] I likely wouldn't have made much money and there would have been a huge opportunity cost. Someone who's running a fraud is probably very good at it and can keep it going a long time. I would never put money with a short fund – not because I have any problem with it ethically, but because I question if they could make money over time.

[CM: It would be one of the most irritating experiences in the world to do a lot of work to uncover a fraud and then watch it go from X to 3X and watch the crooks happily partying with your money while you're meeting margin calls. Why would you want to go within hailing distance of that? [Laughter]]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

I've never been in a position to ask a broker from whom I've bought to deliver the shares and not had it happen.

I don't see the problem of people shorting stocks, assuming they're not manipulating the market. I would welcome people wanting to short Berkshire. In fact, I'd lend them stock and earn extra income. They're a certain future buyer.

If anyone wants to naked short Berkshire, they can do it until the cows come home. In fact, we'll hold a special meeting for them. [Laughter]

The shorts generally have a tougher time of it in this world. More people are bullish on stocks. It's a tough way to make a living. It's very easy to spot a phony stock or a heavily promoted stock, but it's hard to say when it will turn. If it's trading at five times its intrinsic value, there's no reason it can't trade at ten times.

I don't see shorts as any great threat to the world. If a lot of people want to short your stock, they have to pay you [for the borrow]. We did this with USG. One large brokerage firm approached us [about lending out our stock] and we were happy to do this. We charged them a lot. We even forced them to hold it for a certain period of time so we could continue to earn money on the borrow.

Munger: There's tremendous slop in the clearance process. It's not good for a civilization. It's like having slop in the management of your nuclear power plants.

Buffett: If I buy 1,000 shares of GM and ask my broker to deliver it and he doesn't, what's the situation?

Munger: If you're a private customer, you have to wait a while. There's a lot of slop in derivative trading.

Buffett: But can't I take my broker to court after three weeks?

Munger: I don't think that there's any court that can give you a stock certificate just because you want it.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Q - What do you think of short sellers being investigated for being publicly bearish and short selling companies? Is short selling healthy? Is a healthy discussion between bulls and bears healthy for the markets?]

Buffett: There is nothing wrong with people who are positive or negative speaking out as long as they are responsible for what they say. You can do things on the long or short side that are unethical or illegal. Anytime you attack conventional wisdom though, you will get a lot of negative feedback. When he and Charlie criticized the EMH (Efficient Market Hypothesis), it was so widely accepted people didn't like their comments. In general he has no problem with short selling.

Munger: For the most part we are criticizing the wrong people (the short sellers). The people the criticisms should go to are the accountants who allowed the bad accounting should be held in the dock. The accountants let this happen, and they get very little criticism, and that is a mistake.

- *Source: BRK Annual Meeting 2010 Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Opinion on IPOs?

[CM: It is entirely possible that you could use our mental models to find good IPOs to buy. There are countless IPOs every year, and I'm sure that there are a few cinches that you could jump on. But the average person is going to get creamed. So if you're talented, good luck.

IPOs are too small for us, or too high tech, so we won't understand them. So, if Warren's looking at them, I don't know about it.]

An IPO is like a negotiated transaction – the seller chooses when to come public – and it's unlikely to be a time that's favorable to you. So, by scanning 100 IPOs, you're way less likely to find anything interesting than scanning an average group of 100 stocks.

The seller of a $100,000 house in Omaha will never sell for $50,000. But if 100 entities each owned 1% of a basket of homes in Omaha, the price could be anywhere.

You're way more likely to get incredible prices in an auction market.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Are corporate jets a waste of shareholders' money?

I want to report that we're solidly in favor of private jets. [Laughter]

Charlie used to travel by bus, and only when they had a senior discount. In recent years, I've shamed him into getting a NetJets share; I have two. Berkshire is better off because we use corporate jets. I don't know which deals wouldn't have been made, but I do know [that without a private jet] I would not have had the enthusiasm to travel thousands of miles to see deal after deal. It's a valuable business tool.

It can be misused like everything else. I remember that one time we invested in a company and the CEO stopped in Omaha to see me. He used a grocery chain in Idaho to test products, but also had a lodge there. Properly used, corporate jets have been a real asset to Berkshire.

Munger: If the trappings of power are greatly abused, I think you would find those companies would be disappointing to investors. The Roman emperor who was best remembered was Marcus Aurelius – he had no trappings of power, though he could have. The best way to combat [the excesses of leaders] is to have examples of exemplary behavior.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*

- *Time: 2007*

back to the questions.

Can you forecast the continuing debate between Efficient Market Theory (EMT) proponents and value investors? Are your designated successors “outliers” as well?

The market is generally fairly efficient in evaluating asset classes, but not always efficient in valuing specific businesses. I think EMT probably hit its peak in popularity twenty years ago; it became terribly popular in academia. You had to buy into it to get anywhere in academia. People would have had to give up the work on their Ph.D. theses if they rejected the EMT.

It doesn't appear to be as popular these days. I don’t know if it’s as much holy writ as it once was. Some schools are now offering other courses that really help you learn to value a company. But it’s hard to dislodge a belief that becomes dogma in finance departments.

[CM: The old guard of physicists also clung to their beliefs and wouldn’t accept the findings of the new crop of physicists. The old guard eventually died off, their teachings faded away, and the work of the new physicists became accepted. That will happen with the efficient market theorists, too.]

There’s something about the whole thing that’s always puzzled me. If companies are always valued perfectly because everyone else knows more than you do about everything, then there’s nothing else for you to do. I’ve always wondered what they talk about on the second day of class in that course. The first day they tell you that the markets are efficient and value everything just fine. So now what do we do?

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

How did you get to be so rich?

I was lucky to be born in a free country like America where I had all kinds of opportunities. And I had parents who made sure I understood the importance of a good education, and I learned at a very early age how important it is to work hard and be honest. I always had an interest in business, and learned how important it was to listen and learn. I only invest in a business I fully understand, and then I am patient and I let my investment grow. My advice to you is to work hard in school, and look for something you like to do. If you are happy, you will be successful.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

What is your unified principle?

WB: In ten words or less. [laughter]

CM: Pragmatism. Partly we do it in our different ways because it suits us, and partly because it works better. It is just that simple. We've had enough good sense when something working well, keep doing it. The fundamental algorithm of life: repeat what works.

- *Source: BRK Annual Meeting 2010 Boodell & Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Thoughts on banks willingness to deal with shady characters?

Munger: It's amazing what goes on. Salomon was at least as disciplined and rational as other investment banks, but by the end Salomon was begging for investment business from Robert Maxwell, whose nickname was "The Bouncing Czech." You'd think if this was his nickname, investment banks wouldn't be chasing his business.

The day they found him bobbing [in the water; he committed suicide as the scandal about his misdeeds broke], we [Salomon] sent money to him in exchange for money he was sending to us, but he didn't pay. So, we went to England to collect from his sons and it was a mess. We got what we deserved.

To an investment banker, his earnings would be affected to a significant way if he wrote a few more tickets to Maxwell. You have to control this if guys can make money by bringing dubious things in the door.

[Buffett and Munger chuckled to themselves as they recalled Salomon doing business with another shady character they didn't name. At the 2002 annual meeting, however, Munger identified the company as First Normandy, an IPO that Salomon had to pull before money exchanged hands when they discovered the promoter had completely manufactured his record. In fact, the company was called Normandy America Inc. and, according to a report on the SEC's web site, "Normandy's stock commenced trading on the NASDAQ National Market System on August 15, 1995. One day later, Normandy withdrew its offering from the market and rescinded all trades."]

[CM [dripping with sarcasm]: That was a wonderful experience. Warren, Lou Simpson and I were all on the board [of Salomon], we were the largest shareholders, and we said, "Don't do business with this guy." But they ignored us and said that the underwriting committee had approved it.]

He had a neon sign on him saying "CROOK." He did go to jail. Incidentally, he claimed to have owned a lot of Berkshire stock and to have made a lot of money on it, but I checked the shareholder records and couldn't see it. It could have been in street name, but for a block that big, I think I would have found it [so he was probably lying about his Berkshire holdings.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Risk of holding assets at banks or brokerage houses?

As a depositor in major banks and brokerages firms, I wouldn't worry. We have a too-big-to-fail view toward large institutions to protect depositors – though this is not true of equity holders or margin accounts.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Any comments on the behaviour of accountants in tax avoidance schemes?

Some of the tax shelter proposals that were sponsored by the most prominent auditing firms were absolutely disgusting. [Such schemes are one of the] reasons why the middle class pays more taxes than it should.

Berkshire is a heavy contributor to the Treasury. As I pointed out in the annual report, if only 540 contributors paid what we did last year, no-one else would have pay anything – corporate, personal, social security, etc. taxes.

Sure, we buy tax-exempt bonds sometimes but we pay full 34% taxes on our capital gains.

[CM: You'll better understand the evil when top audit firms started selling fraudulent tax shelters when I tell you that one told me that they're better [than the others] because they only sold [the schemes] to their top-20 clients, so no-one would notice.]

And the lawyers wrote the opinions [blessing these schemes] – don't leave them out.

We had people come to our office, from top auditing firms – but not our auditors [Deloitte & Touche] – and they wanted us to sign confidentiality agreements for schemes to set up 20 offshore trusts, etc. It was designed to be so complex and spread out that no [IRS] agent could figure out the totality.

It makes everyone else pay more. I was a little hard on Pamela Olsen [Assistant Secretary for Tax Policy at the U.S. Treasury, who Buffett criticized in his annual letter (pages 6-7) for accusing him of "playing the tax code like a fiddle"], but I applaud Pamela on her work exposing this.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Does protection of the banking system warrant the lack of public disclosure in Bank of America's purchase of Merrill Lynch?

Buffett: That's a very tough question. It was a very fragile situation. If Bank of America backed out, it would have set things in motion. It [Merrill] could not stand on it own. The CEO was in a tough spot. Would I have behaved differently than Bernanke or Paulson? Ask Charlie what he would do. [laughter]

Munger: You can legitimately criticize Bank of America's acquisition of Merrill Lynch. But once they signed the contract, I believe Bank of America and the Treasury acted honorably. Read the "history of the deal" [section] in the proxy statements. Bank of America got two fairness opinions in 24 hours at a cost of $20 MM. They needed a fairness opinion on the fairness opinions. [laughter]

Buffett: I'm sure they hope you'll be on the jury. [laughter]

[Comment: The "history of the deal" sections of proxy statements can make for fascinating reading.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What is the main contribution to the stock market crash of this century?

This is a very difficult question to answer and even the smartest and best economists don't have a clear answer or agreement. One thing that we do know is that when a stock price goes down, there is less demand than there is supply at that price. More people want to sell their shares of that company, than want to buy, so the price keeps getting lower until somebody is willing to buy it.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

[back to the questions.]

Are investment banks so complex that the head is not aware of the risks?

WB: Exceptionally good question. The answer is probably yes in most places, though there are a few CEOs I respect a lot. Gen Re had 23,000 derivative contracts. I could have worked full time on that, and I probably still couldn't have gotten my head around it all. And we had exposures that I thought were possible and heads of business units didn't — I don't want slim, I want none. I am Chief Risk Officer at Berkshire. If something goes wrong, I cannot assign it to a committee. I think big investment banks and big commercial banks are almost too big to manage effectively in the way they have elected to run their business. It will work most of the time. You may not see the risk. A 1-in-50-year risk - it won't be in the interest of a 62 year old executive who is retiring at 65 to worry about it. I worry about everything. Many CEOs say they didn't know about what was going on. It's easier to admit he doesn't know what's going on than to admit that he knew what was going on and let it go on. I've been asked for advice on regulation. Somehow, the press hasn't picked up on this too much. OFHEO [Office of Federal Housing Enterprise Oversight] supervised Fannie [Mae] and Freddie [Mac]—their activities had a public element, and were semi-regulated. For 200 people [at OFHEO] it was their sole job to examine the books. They were two-for-two with two of the biggest accounting scams in the history of the world. The person at the top must have it in their DNA to see risks. In many ways, there are firms that in terms of risk are too big to manage. If too big to fail, there are interesting policy implications.

CM: It is crazy to allow things, which are run with knavery, to get too big to fail. As an industry, there is a crazy culture of greed and overreaching and overconfidence, trading algorithms. It is demented to allow derivative trading such that clearance risks are embedded in the system. Assets are all "good until reached for" on balance sheets. We had $400 million of that at General Re, "good until reached for". In the drug business, you must prove it is good. It is a crazy culture, and to some extent, an evil culture. Accounting people really failed us. Accounting standards ought to be dealt with like engineering standards.

WB: Salomon [Salomon Brothers during the 1991 scandal] was trading with Marc Rich who had fled the country. They said they wanted to keep trading with him. Only by total directive could we stop it. I think the Fed did the right thing with Bear [Stearns]. They would have failed on Sunday night, and walked to a bankruptcy judge. They had $14.5 trillion of derivative contracts — not as bad as it sounds, but the parties that had those contracts would have been required to undo the contracts to establish the liability from the estate. With the $400 million at Gen Re, we had 4-5 years. At Bear, it would have been 4-5 hours. It would have been a spectacle. Two of the witnesses at the testimony said, 'we understood we couldn't borrow unsecured, but we didn't understand we couldn't borrow secured.' The world does not have to lend you money. If they don't want to lend you money, an extra 10 basis points won't make a difference. It depends on people's willingness to lend you money, which comes down to how other people feel about you. If you are dependent on borrowed money, you have to wake up every day worried about what the world thinks of you.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

What are the risks in the financial system? (2005)

I think our currency will weaken, but I'm not the Armageddon type. I think most of our citizens will be better off in 10 or 20 years.

I'm concerned about our political leadership, but as Peter Lynch once said, "Invest in businesses any idiot could run because someday one will." (Laughter) We've had all sorts of bad Presidents, but have still done well. Our real GDP per capital rose seven-fold in the last century, which is remarkable.

Sure, the big consumer debt load and trade deficit could cause some financial market distress – there are great investment opportunities in dislocations – but the country will survive.

Eventually the country will do fine, but there's a significant possibility of a chaotic situation.

[CM: We don't have any great record making macroeconomic predictions. It's obvious that we could have some kind of convulsion however.]

Far greater sums in one asset class after another are on a hair trigger. We're piling up huge financial assets at intermediaries, which lend themselves to huge dislocations. We've turned over huge amounts of money to people who want to beat the S&P in the short term, and while they may appear to be independent, their actions are not independent. They can all try to head to the exits at the same time. But if you're selling, you must find a buyer. The only way to sell a burning seat in the theater is to find someone else to buy it.

[CM: There's way heavier leverage by hedge funds and [others] today.

I knew a guy who had $5 million and owned his house free and clear. But he wanted to make a bit more money to support his spending, so at the peak of the internet bubble he was selling puts on internet stocks. He lost all of his money and his house and now works in a restaurant.

It's not a smart thing for the country to legalize gambling [in the stock market] and make it very accessible.]

Is there anyone we've forgotten to offend? We don't want to miss anyone. (Laughter)

[Q - Risks in the Global Financial System?]

Charlie and I are not as on board on this, so I'll answer it and then Charlie can share his thoughts.

We have a $618 billion trade deficit and an even larger current account deficit. As large as we are, something will change [for the worse] and the longer it goes on, the worse it will be. Most economists say a soft landing is likely, but they don't say what this [will look like]. How the numbers come down is quite significant. Paul Volcker has expressed apprehension about [the likelihood of] a soft landing.

There's as high a percentage as there's ever been of money on a hair trigger – in foreign exchange, stocks, bonds, the carry trade… When people go to bed at night – an electronic herd – that can sell billions of dollars at the press of a key. I think this is at an all-time high. An exogenous event, like Long Term Capital Management – and it will happen – could trigger a stampede.

If you hold dollars, you can't get rid of them. You can't sell them to the U.S., because you'd get dollar-denominated assets in return. And you can't sell them to another country, like France [I forget the reason he gave].

[He read a quote from Paul Volcker's recent article in the Washington Post and concluded:] The situation is dangerous and intractable and is at an all-time high. But I can't predict the timing.

I would say that what's going on with the trade deficit will have serious consequences. But in the last Presidential race, neither candidate addressed it, which is understandable. 90% of the American people can't define "current account" and it's hard to describe in three minutes. And it's not the kind of issue that Betty [the average American voter], when she's making her toast in the morning, asks herself, "Gee, that trade deficit is really unsettling me today."

Charlie has a different view. Charlie?

[CM: If anything, I'm a little more repelled by the lack of virtue in how we as a nation run our financial affairs. Look at consumer credit… Things could get a lot worse.]

How do you think it will end? [CM: Badly.]

We're like an incredibly rich family. We sit on the porch of our huge farm – so big that we can't even see the end of it – and each year, we consume 6% more than the farm produces. To pay for this, each year we sell or mortgage a little bit of the farm that we can't see, so we don't even notice. We're very, very rich and the rest of the world is happy to buy from us or lend to us, so each year they take a piece of our valuable assets – and they work very hard.

But we will have to service this. If it goes on for a long time, our children will pay. We're sending $2 billion per day [overseas right now].

What will cause a crisis? I don't know. Does it reach a tipping point, or will there be an exogenous event?

I have a hard time conceiving of any scenario in which the dollar appreciates.

[CM: The counter-argument is: what does it matter if foreigners own 10% of us over time, if the pie grows by 30%? [But I don't buy this. Taken to its logical extreme,] what if we had no manufacturing and our only businesses were hedge funds?]

Imagine that if, instead of fighting the Revolutionary War, we'd instead agreed to give Britain 3% of our GDP each year. This might have looked good in 1776, but not to future generations. It's like taxation without representation.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What can we learn from past blow-ups?

WB: They're all a little different, and they all have similarities. This one had origins in the mortgage field and residential real estate. Trouble in one area has a way of spreading to another area. In my lifetime, I can't remember one where this particular residential real estate bubble sent out the kind of shock wave and exposure of so many other bad practices and weaknesses elsewhere like this one. There isn't any magic to analysis. There are stupid things that won't be done soon again; and not the same way again. But variations of it will occur again. Humans are what lead to stupidity and behavior. Primal urges, wanting to believe in the tooth fairy that pops up from time to time, sometimes occur on a very big scale. I have no great insights on the solutions.

CM: It was a particularly foolish mess. We talked about an idiot in the credit delivery grocery business, Webvan. An Internet-based delivery service for groceries [that failed terribly]—that was smarter than what happened in the mortgage business. I wish we had those Webvan people back. I have a rule: The politicians are never so bad you don't live to want them back. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Do you think the bankruptcy process should be reformed?

We bought Fruit of the Loom out of bankruptcy and have invested in junk bonds [of bankrupt companies]. We got involved with Fruit of the Loom first by buying the bonds.

Munger: I think much of [how bankruptcy is handled] is pretty horrible. It's a situation where courts themselves have gone into the business of bidding to attract bankruptcy proceedings. They've found that if they develop a process in which they over-pay people (lawyers, etc.), they can attract the most cases. It's so upsetting to watch that I don't follow it as much as I should. I'm an old man and I don't like to have an upset stomach. [Laughter]

Buffett: We bought a lot of the Enron bonds called Ospreys. The Ospreys were a complex situation and we considerably more than tripled our money. In other situations, we got outbid, like with Burlington and Sitel. We owed all of the Sitel bonds, though, so we came out fine.

Anytime there's something big and complicated, there might be some mispricing. But recently, [the mispricing has] been on the high side. Many people are looking [in this area], so it's a field that does not have a lot of potential right now, but it will again.

Over the next 10-15 years, we're likely to do something big in the bankruptcy area.

Munger: I remember the Eastern Airlines bankruptcy. The courts abused the senior bondholders to protect the employees and communities. Based on the law, you'd have come to one conclusion and the courts did the opposite.

There are a very interesting set of dynamics [involved in these types of cases].

Buffett: With Penn Central, a judge said it was too complex and came up with a quick, fast solution. It worked out well, but it wasn't what the book said should be done. Judges can do what they want.

I remember a case in Cincinnati we talked about earlier [I'm not sure what he was referring to] and when we were on our way up there, I asked Charlie, "How much power does a judge have?"

Munger: And I answered, "As much as he thinks he has."

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Insurance pricing and risk?

In auto insurance, our policies are up more than premium volume, so the average premium is down a little bit. In reinsurance, in which we are a big player, there are great variances. For marine risks on the Gulf Coast (rigs, etc.), prices are up dramatically, as they should be. Premiums paid for this type of risk were $2.5 billion and the payouts were $15 billion [so obviously the pricing wasn't sufficient].

In the past few years, we've been the largest writer of mega-cat insurance in the world, and I'm sure we will be this year. Prices are up a lot, but we don't know if exposures are up even more. We don't know if the experience of the last two years [the worst hurricanes in U.S. history] is to be relied upon more than the past 100 years. They tell you two different things. We do know that it would be silly to assume that the past two years [are outliers]. Atmospheric conditions and water temperatures have changed. This could change the propensity of hurricanes to occur and their severity. If the last two years are relevant [e.g., become the norm], then we're not getting paid enough [for the reinsurance we're writing currently].

The scary possibility is that the changes are continuous and that the changes in the past two years build up. It gets into chaos theory, whereby the output is not a linear relationship. You could dream up some very scary scenarios.

We are willing to write in certain areas and with certain coverages because we can sustain the losses. We're willing to sustain big losses because [we have the financial strength and think we're getting paid enough]. But it's not like flipping a coin or rolling dice – there are many changing variables.

In the third quarter, we will have a lot of exposure to wind [damage claims] – but not as much as a couple of years ago. Prices are hardening in that particular area. If the prices go back to what they were last year, [we will write a lot less].

We don't believe in modeling. The modelers don't know a thing. It's silly. We get paid for making guesses on it. Over a lifetime, we'll know if we were right. Even if there are low losses this year, we won't know if we're right.

It's still a business we like. If there's a super-super catastrophe, say $250 billion (four times Katrina), we would pay maybe $10 billion. We could pay, and comfortably pay, but many others in the industry would be in trouble.

Over 5-10 years, we'll know how well we did.

[CM: The record of the past, if you average it out, has been quite respectable. Why shouldn't we use our capital strength to get into volatile areas that make others uncomfortable?

We're getting close to 10% of the float of the American property and casualty insurance industry, so we can't continue to grow as fast as we have, but it will be attractive. I'm aware of the risks like pandemics – you're aware of them too – and we get offers every day.

We think about $20 billion or $50 billion events and up. It's a question of making judgments of whether we're getting paid enough. We'll know in 30 years. If we have a lot of money then, we'll know we were right. If we take a big loss this year, it doesn't mean we are wrong. What will hurricane losses be in 10 years? I don't know, but I'll keep thinking about it every day.

[CM: The laws of thermodynamics are such that if the water is getting warmer – and I believe it is – the energy of the weather is going to go up.]

You have this possibility that a 1-2% change can lead to 100%+ increases in losses. That's the game we're playing, but if we don't like the prices we're being offered – and we haven't in many areas – we don't play and we're happy to have someone take our place in line.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

How do you manage insurance risk?

We are doing some things in insurance that have some correlations. For example, we have insured a lot of things in California and if you have the right earthquake at the right time, not only could National Indemnity and GEICO incur losses, but See's and Wells Fargo would as well. And we used to own Freddie Mac [which would get hit as well].

I think about this a lot – it's my job to think about the absolute worst-case scenario. No matter what happens, we'll be OK.

The most likely mega-cat is a hurricane. In Long Island, there's huge exposure [by the entire insurance industry]. The last big hurricane hit there in the 1930s [and insurance is being priced accordingly]. But everything that can happen will happen.

The most powerful earthquake in U.S. history – 9.0 – was in New Madrid, Missouri.

It's Berkshire's job to be absolutely prepared for the very worst. A few years ago, we didn't have nuclear/chemical/biological risk exclusions [in our insurance policies] – we had huge risk, but it's gone now.

We wrote a policy for $500 million in excess of $2.5 billion, not caused by a nuclear/chemical/biological attack, on a major international airport. There was a cap of $1.6 billion for business interruption, so there would have to be more than $900 million of property damage [before we'd have to pay anything].

We insured the [NCAA basketball] Final Four against being cancelled (not moved or postponed), excluding nuclear/chemical/biological attacks. We would have paid $75 million [in this event]. We also insured the Grammy's in a similar way. We're OK with losing a lot of money, as long as we're being paid appropriately for the risk.

Nuclear/chemical/biological attacks are excluded from virtually all of our policies. We write it only when we're specifically getting paid for it.

[CM: We care more about thinking about things that have never happened. Think of a 60-foot tidal wave hitting California. Can you imagine?

Is there any other company that has attacked [reducing the insurance risk of] nuclear/chemical/biological attacks as well as us?]

No-one has attacked it more vigorously than we have. It's Armageddon here every day. (Laughter)

My aunt, who died last year, had everything she had in Berkshire [stock. With investors like this,] it would be crazy to take any risks to jeopardize this [company] to make an extra $100,000 or add a point to the track record. Maybe if I had a 2/20 [incentive fee structure; 2% management fee and 20% promote], I'd behave differently, but I sure hope not.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

Can you comment on the consolidation taking place internationally in the insurance

industry?

Consolidation is a funny thing. I don□’t think it solves many problems: putting two lousy businesses together usually makes one big lousy business. The winners in the insurance business are going to be the people that have some franchise based on specialized business, management talents, or terrific distribution.

GEICO is the lowest cost auto insurance distributor on all fronts. USAA is the same way; in fact their ways of operating are a lot like GEICO□’s - but they only offer their products to a narrow clientele, whereas GEICO offers theirs to a much wider group. In general, we□’re well-positioned in the industry; we have the best insurance vehicle in the business.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

How do you price super cat insurance policies?

Try to be as realistic as you can on those numbers [the key variables] – err on being conservative – and then when you’re through, make sure you have a margin of safety.

In pricing earthquake insurance, look at the number of major quakes in past century – there have been 26 – so we’d assume 30 or 32 going forward (not 50 or we’d never write any business). If we calculated the resulting price to be $1 million, then we’d price it at $1.2 million to build in a margin of safety.

[CM: Using the book Deep Simplicity [see link on page 33, below], you can predict how size is likely to be allocated. A standard power law will tell you how many earthquakes there will be of various sizes – many small ones, but big ones are less likely. So just do the math, apply the power law and calculate estimated damages.]

It’s difficult if someone wants to protect against a 9.0 quake, which happens only once every 1,000 years. But in investing, if it’s too hard, skip it.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Could you comment on fraud in the insurance industry?

[In response to a compliant by a shareholder that his insurance company had – he claimed – defrauded him on a Workman's Comp claim, Buffett said:]

There is plenty of fraud in various aspects of insurance. In automobile insurance, we have fraud units.

We have lost more money in Workman's Comp insurance than just about any other line in terms of aggregate dollars. It's been a tough period. We have one small direct seller of Workman's Comp insurance in California, and then Gen Re does Workman's Comp reinsurance, and it's been a bloodbath – the rates haven't covered the losses. There's been a fair amount of fraud, especially in the direct lines.

Many companies that have been in the Workman's Comp business, especially in California, wish they hadn't. They haven't made money from it.

[CM: If a company gets into a lot of trouble by fraud practiced on it, and its own affairs are disrupted, then it's just human nature to give customers a hard time.]

But the main fraud isn't by insurance carriers against small businessmen, but by the doctors, lawyers, etc. doing it against the carriers.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Opinion on the likely housing bubble? (2005)

Americans feel very good about home ownership – for many people, it's been their best-behaving investment. If it's a bubble and if it's pricked, it could affect some Berkshire businesses, but it would also let us put a lot of money to work [referring to a likely crisis that would depress stock prices and let them invest some of the $40+ billion cash hoard].

We've not made our money betting on macro stuff like foreign exchange; instead, it's from buying cheap stocks like PetroChina.

25 years ago, we saw the same thing [a real estate bubble] with Nebraska farmland. People fled cash, saying "cash is trash." A farm 30 miles north of here sold for $2,000/acre in 1980; I bought it later for $600/acre. People went crazy and the consequences were huge. Many banks failed, even ones that had survived the Great Depression.

I don't know where we are with housing – people may behave differently because they live in it. But when you get prices increasing at a far greater rate than construction costs or inflation [there can be problems].

[CM: In parts of California and in the Washington DC suburbs, there's a bubble.]

I sold a house in Laguna Beach, CA for $3.5 million. The house was only worth about $500,000, so the land was being valued at $3 million. It was only a fraction of an acre, so the land was being valued at $60 million per acre. That's a pretty fancy price for almost any land.

[CM: One of the Directors of Wesco told me that a modest house next to his recently sold for $27 million. There are some very extraordinary housing price bubbles going on and the consequences could be serious.]

The financing terms have become easier and easier as prices have risen, which is contrary to normal [and prudent] practices. But the financing process has become so disintermediated that the mortgage buyer doesn't care. The easier financing has led to a boom in prices.

The Nebraska farm bubble was fueled by banks that historically had been conservative but went crazy. They said that a farm was an asset-appreciation investment, not an income investment – in other words, they were playing the greater fool game.

The rest of the world is saving. They're investing $2 billion/day in the U.S. Some say they have so much confidence in the U.S. that they want to invest, but this is silly. They invest because they have to.

[CM: It's obvious that easy financing [for houses] is fueling big price increases.]

Consider the following fanciful illustration. Let's say we had a fixed population in Omaha and no new houses were built, but each year everyone sold their house to their neighbor and moved. In year one, the price was $100,000. In year two, the price jumped to $150,000, but Fannie and Freddie guaranteed the mortgage and sold it to Asian investors. This is an influx of $50,000 to the family income. In year three, the price jumps to $200,000 and the same thing happens.

Obviously, it is transparent what's happening here, so it wouldn't really happen, but you can have accidental behavior that leads to certain aspects of this.

[CM: There are Ponzi effects in any economy, and you can see that here.]

[CM: In a corporation like Berkshire, a subchapter C, owning real estate is very disadvantageous.

Investing in real estate is having a bubble of its own. My friends who own real estate are selling their worst assets and getting better prices than they'd imagined.]

I have less than 1% of my net worth outside Berkshire and when the Nasdaq hit its high, I had nearly all of it in REITs, which were selling at a discount to their liquidation values. REITs are quite attractive now, especially compared with 5-6 years ago when they were very unpopular.

It's better to pay attention to something being scorned than championed. Munger: And REIT accounting is phony. Buffett: Other than that, we love REITs. (Laughter)

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

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Munger: Some of the worst sins in manufactured-housing financing have gone over to the financing of stick-built homes. A lot of ridiculous credit is being extended in the U.S. housing sector. There was a horrible aftermath in manufactured housing and my guess is that we're likely to see something similar [as a result of the unwise credit being extended in the overall housing sector].

Buffett: Look at the latest 10-Qs of financial institutions and the levels of accrued, but not paid, interest. You'll see some interesting things. It's growing rapidly, which means the lenders are booking earnings, but not receiving the cash [e.g., borrowers are falling behind in their payments].

Dumb lending always has its consequences. You can have an epidemic and not realize it until you're very far into it. You had it in commercial real estate in the 1980s and the RTC [Resolution Trust Corporation] was the result. A developer will build anything he can get financing for.

Munger: Some of the dumb lending is facilitated by contemptible accounting. The accounting profession [has continued to disgrace itself here].

Buffett: We developed a piece of property for 20 years in California.

Munger: I think we got our money out, plus interest [e.g., a terrible rate of return, given the time and effort].

Buffett: It's not an exaggeration. The land value was $5-6 million when we sold. We finished at the wrong time. What do you think it would be worth now, Charlie?

Munger: $100 million.

Buffett: The swing in property values has been huge in some markets. What we see in our residential brokerage business [HomeServices of America, the nation's second- largest realtor] is a slowdown everywhere, most dramatically in the formerly hottest markets. The high end and where properties were bought for investment and speculation are doing the worst.

If you buy a house for $300,000 and take a $270,000 mortgage, you're going to stay there and continue to make your mortgage payments, even if the market value of the house falls (unless something bad happens to you like losing your job). But if you have investors and speculators holding the properties – effectively day traders in the condo market – that kind a speculation can produce a market that can move in a big way. First the buying and selling stops and then the market reopens. With stocks, they will trade every day, so you can't kid yourself. If you own GM stock and it's down on Monday, you know you've taken a loss. But in housing, there's always the hope that you can find the one seller who will pay the price you want, who hasn't heard that the market has collapsed.

In [Miami-]Dade and Broward counties in Florida, the average condo costs $500,000. [I may have the numbers slightly off here:] Not long ago, there were 3,000 condos listed and 2,900 sold every month. Today, there are 30,000 condos listed – worth $15 billion – and only 2,000 per month are selling. The whole supply-demand equation has changed.

We've had a real bubble to some degree. I would be surprised if there aren't some significant downward adjustments, especially in the higher end of the housing market.

Munger: There's a bubble among high-end apartments in Manhattan, but in Omaha, housing prices are reasonable.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

How do you feel about the current real estate environment?

If you are buying to own a home, that is fine. Otherwise, it seems to be getting into bubble territory. We're not excited about real estate because generally there is not enough return at current prices.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Your views on the securitization of real estate?

There has been enormous securitization of the debt too of real estate and that is one of the items right now that is really clogging up the capital markets. The mortgage back securities are just not moving, commercial, not residential mortgage backs. But I think you are directing your question at equities probably. The equities, if you leave out the corporate form, have been a lousy way to own equities. You have interjected a corporate income tax into something that people individually have been able to own with a single tax, and to have the normal corporate form you have a double taxation in there. You really don't need it and it takes too much of the return.

REITS have, in effect, created a conduit so you don't get the double taxation, but they also generally have fairly high operating expenses. If you get real estate, let's just say you can buy fairly simple types of real estate at an 8% yield, or thereabouts, and you take away close to 1% to 1.5% by the time you count stock options and everything, it is not a terribly attractive way to own real estate. Maybe the only way a guy with a $1,000 or $5,000 can own it but if you have $1 million or $10 million, you are better off owning the real estate properties yourself instead of sticking some intermediary in between who will get a sizable piece of the return for himself. So we have found very little in that field.

You will see an announcement in the next couple of weeks that may belie what I am telling you today. I don't want you to think I am double crossing you up here. But generally speaking we have seen very little in that field that gets us excited. People sometimes get very confused about--they will look at some huge land company, like Texas Pacific Land Trust, which has been around over 100 years and has got a couple of million acres in Texas. And they will sell 1% of their land every year and they will take that (as income? Garbled) and come up with some huge value compared to the market value. But that is nonsense if you really own the property. You can't move. You can't move 50% of the properties or 20% of the properties, it is way worse than an illiquid stock. So you get these, I think, you get some very silly valuations placed on a lot of real estate companies by people who really don't understand what it is like to own one and try to move large quantity of properties.

REITS have behaved horribly in this market as you know and it is not at all inconceivable that they become a class that would get so unpopular that they would sell at significant discounts from what you could sell the properties for. And they could get interesting as a class and then the question is whether management would fight you in that process because they would be giving up their income stream for managing things and their interests might run counter to the shareholders on that. I have always wondered about REITS that have managements they say their assets are so wonderful, and they are so cheap and then they (management) go out and sell stock. There is a contradiction in that. They say our stock is very cheap at $28 and then they sell a lot of stock at $28 less an underwriting commission. There is a disconnect there. But it is a field we look at.

Charlie and I can understand real estate, and we would be open for very big transactions periodically. If there was a LTCM situation translated to real estate, we would be open to that, the trouble is so many other people would be too that it would unlikely go at a price that would get us really get us excited.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

Where do you see the residential real estate market going in the next year or two?

Buffett: We don’t know. I see a lot of data. In the last few months, you’ve seen a real pick up in activity in California in the low to medium-priced homes at or below $750,000. There are many different markets, and many California markets will be difficult. There’s been no bounce in prices yet, though activity is up on lower prices. Looking at real estate brokerage data, it looks like something close to stability in California in the $750,000 and less segment at these much reduced prices. Mortgages being put on books today are much better than before. Interest rates are down and it’s easier to make payments. It’s improving. There are about 1.3 million households created in a year, but in a recession it tends to be lower. If you create 2.0 million houses a year, then you run into trouble. There's an excess inventory of about 1.5 million now. With housing starts down to 500,000 [annual rate], the excess supply will be absorbed. We are eating up the excess at a rate of 700,000 – 800,000 units per year. It takes a couple of years. There are two options: blow them [the excess inventory] up—I hope they blow up yours [Charlie's] instead of mine—or sell them. South Florida will be tough for a long time. You can't do it in a day or a week, but it will get done. Then prices will stabilize. Then we can go to [building] one million per year. The situation is being corrected.

Munger: In places like Omaha, I would buy a house tomorrow, if I were a young person.

Buffett: There are approximately 80 million houses in the country, and about 25 million do not have a mortgage. The situation is being corrected.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Can you comment on the subprime market?

The subprime market, encouraged by lenders, intermediaries, builders, etc., led to a lot of people buying houses they couldn't afford. There will be consequences for these people, but the question is whether it spreads. If unemployment and interest rates don't go up, then it's unlikely this factor alone triggers anything in the general economy.

In the 10Qs and 10Ks I've read, a high percentage of loans allowed people to make tiny payments early on, made up by higher payments later. I think this is dumb lending and dumb borrowing because someone who can only make 20-30% payments now isn't going to be able to make 110% payments in the future. Those people and institutions were betting that house prices would keep going up. When this stops, you have a big supply of houses come on the market, like we saw in manufactured housing. You'll see plenty of misery in that field – you've already seen some. But I don't think it'll be any huge anchor for the economy.

Munger: There's been a lot of sin and folly, a lot of it due to accountants who let lenders book profits when no one in their right mind would have allowed them to book profits. If accountants lie down on the job, you see huge folly.

It's in the national interest to give loans to the deserving poor. But the moment you give loans to the undeserving poor or the stretched rich, you run into trouble. I don't see how people did it and still shaved in the morning, because looking back at them was a face that was evil and stupid.

Buffett: You've seen some very interesting figures in the past few months on people who didn't even make the first or second payment. That shouldn't happen. We saw this is in the manufactured-home sector. When someone only has to make a $3,000 down payment to someone who gets a $6,000 payment [the salesperson's commission], then believe me, you'll see a lot of bad behavior.

Securitization accentuated the problem. A local banker wouldn't allow this because he'd see what's going on, but when the loans are bundled and sold by Wall Street, that discipline disappears.

It will be at least a couple of years before real estate recovers. In some areas of the country, the [housing] inventory overhang is huge. The people who were counting on flipping the homes are going to get flipped, but in a different way.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

Foreign Investments

What's your opinion on investing in foreign stocks?

We have a number of businesses that derive very significant percentages of their revenue from international operations. Coca-Cola earns 80% or more from their international operations; Gillette will earn two thirds or more from international operations, so we get a lot from outside the United States. It's a slight advantage to us having U.S.-

domiciled companies. For instance, we get better treatment on the dividends if they are domestically based because of the way the U.S. tax laws go. But if Coca-Cola were domiciled in Amsterdam or if Gillette was in London, we would still be attracted to them to virtually the same degree we are now. We look at businesses domiciled outside this country--many don't meet our size requirements, but that's true here, too--but we have nothing against buying companies that are domiciled outside the United States. We will keep looking; we need to look everywhere with the kind of money we have today available for investment. Charlie?

[CM: Again, we have a wonderful way of playing the rapid development of companies outside the United States. So far, we haven't seen anything that has attracted us as being better. If you can sell Coca-Cola, do you really want to get into steel in Malaysia or something?]

Some things travel very well, and some things don't. Gillette travels, Disney travels, McDonald's travels, Coke travels; See's candy doesn't travel as well. It might if you spent 50 years working on it, but it's not an easy thing to travel. Actually, candy bars themselves don't travel very well; if you look at the top-selling candy bars in France or in England or in Japan, you don't find the similarity you find in terms of the best-selling soft drinks or movies or fast food hamburgers or razor blades.

[CM: Except Snickers! (laughter) For some reason, Snickers.

Charlie's got a lot of experience. You may want to invest where we invest, but you don't want to eat where we eat. (laughter)

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

[Comments on investing in Europe]

One disadvantage to buying a stock in the UK is that you have to report your holding once you reach the 3% level. So, for a stock with a $5 billion market cap, we’d have to report [and likely run the stock up] once we’d acquired only $150 million. But in the past, we’ve owned Guinness, which is now owned by Diageo, so this is not an overwhelming disadvantage. We’d be very comfortable owning many UK companies.

Incidentally, contrary to what’s been reported, we do not have to report a 5% position within 10 days [referring to reports in The Wall Street Journal and elsewhere that Berkshire would have to file on its recently disclosed purchase of Anheuser-Busch stock if it held more than 5% of the shares outstanding].

[CM: Recently we’ve preferred the currencies of socialized Europe over the U.S. dollar. A queer occurrence…]

I remember when I’d come back from Europe and couldn’t wait to convert my euros back to dollars.

Europe isn’t doing as badly as you might think. Its growth rate is lower than ours, but our population is expanding a lot faster, so on a per capital basis, the gap is not as wide as you’d think.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[back to the questions.]

What are your requirements for investments outside the U.S.?

We rule out any markets that aren’t big enough. We need to make investments in the hundreds-of-million-dollar-size range, so that rules out a lot of markets.

Transparency matters; the accounting doesn’t matter so much to us. As long as we are able to value what’s underneath of it, we’ll invest. Remember though, that something like 53% of all the value of the public companies in the world is here in the U.S., so we are a big piece of the pie.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[RE: Declining U.S. Dollar]

We think the dollar, over time, unless policies change in a major way, will likely decline somewhat more against most major currencies. At one time, we backed this up with $22 billion in foreign currencies, but then the carry made that an expensive way to express that belief, so now we buy into companies that earn a lot in foreign currencies. It's a factor, but not a 50% factor, in what we buy.

We're following policies in this country that will lead to a decline in the dollar – the fundamental forces are fairly strong.

We own one currency position right now that will surprise you – we'll tell you about it next year.

Munger: The inflation factor at Costco is zero. It's perfectly amazing how well we've done so far.

Buffett: Look at oil going from $30 to $60 and the euro from 83 cents [per dollar] to $1.35, so the price of oil for Europeans has gone up very little – 25% vs. 100% for us. It's easy to anchor on your own currency.

You'll have to think more about currency than you have. Around the world, others think about currencies, but the average American hasn't had to.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

When looking at other countries Mr. Buffett, do you look at the country's overall financial status or do you look at the financials of that specific company in a foreign country? You mentioned investing in Korean companies – do you ever look at the state of the country you are investing in?

We care about the country where the company is run. There is a disadvantage being outside of the US. A few years ago we were looking to invest in either PetroChina or Yukos in Russia. We ended up picking PetroChina because the political situation was more stable. It turned out to be a good decision.

I care about the country and the geopolitical environment I am investing in.

The whole company was selling for $35 billion. It was selling for one-fourth of the price of Exxon, but was making profits equal to 80% of Exxon. I was reading the annual report one day and in it I saw a message from the Chairman saying that the company would pay out 45% of its profits as dividends. This was much more than any company like this, and I liked the reserves. If it were a US company, it would sell for $85 billion; it's a good, solid company. I don't understand the Chinese culture like I understand the US culture. However it said right in their annual report that they will payout 45% of their earnings as dividends, basically they say if they make money they will pay it out. I invested $450 million and its now worth $3.5 billion. I decided I'd rather be in China than Russia. I liked the investment climate better in China. In July, the owner of Yukos, Mikhail Khodorkovsky (at that time, the richest man in Russia) had breakfast with me and was asking for my consultation if they should expand into New York and if this was too onerous considering the SEC regulations. Four months later, Mikhail Khodorkovsky was in prison. Putin put him in. He took on Putin and lost. His decision on geopolitical thinking was wrong and now the company is finished. PetroChina was the superior investment choice. 45% was a crazy amount of dividends to offer but China kept its word. I am never quite as happy as I am in the US, because the laws are more uncertain elsewhere, but the point is to buy things cheap. Russia is just a bad geopolitical environment. On the other hand, China has kept their word on paying the dividends. In fact, when the dividends check comes in, it is calculated out 10 or so decimals, these guys keep their word. I don't know the tax laws in China, but you can buy a good business cheap. At Berkshire Hathaway, you have to spend hundreds of millions of dollars to move the needle. We have a problem of finding things worth investing in.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

1/8th of world is in India. Why aren't you investing in India?

WB: That is a good question. We have connections there. In insurance, there are distinct restrictions at what we can do in India. As of yesterday, I agreed next March to go to India, because of what our Iscar business is doing there. India will grow, and Iscar belongs in every industrial country in world. We have good sized operation there. We don't rule out India. Posco – they have big plans for India.

CM: One trouble that India presents is that the government is causing paralysis, endless due process. Planning, approvals, zoning is hard. Wise founder of modern Singapore said that China will grow faster than India because government causes less paralysis. Countries are different, and while we kind of admire the democracy that causes the paralysis, we still don't admire the paralysis.

WB: Countries learn much from each other, and many have learned from USA. Maybe they can steal some ideas, and improve on us. We ought to figure out a lot of ways to do business in those countries. My preference is insurance which I understand. Both China and India do limit us right now, of what we can own and how much. Why put my managerial talent to work on something where we only own 20% vs 100%? But we remain interested because people in China and India will live better 20 yrs from now.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

How large is the universe of companies whose intrinsic value you know? Why invest in South Korea or China?

WB: Our immediate decision is whether we can figure it out. We are thought to be rude sometimes, when really we are just being polite in not wasting someone's time. We know very early in a conversation whether what someone is talking about is actionable. We don't worry about stuff we miss. We know there are many things that we won't know enough about when we finish thinking about it, so we throw it out. We make a decision in five minutes. We know about a lot of industries, and there are some things we don't understand. We like to expand our universe of knowledge. If we can't make a decision in five minutes, we can't learn enough in five months. If we get a call, with a business for sale or I am reading a paper or 10-K [annual company SEC filing], we will move right then if there's a big difference between price and value.

CM: We can make a lot of decisions about a lot of things very fast and very easily, and we are unusual in that. The reason is that there is such an enormous amount of things we don't look at. If you don't do star- tups, you blot a lot of complexity out of your life. What we found out is that there are still a lot of things to look at and that are available, even if we filter out all those things.

WB: There are a lot of giveaways in the first sentence or two. We waste a lot of time, but we waste it on things we want to waste it on.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Investing in Brazil?

Our problem with many markets is that we have to put out a lot of money because we're so big. We have to invest hundreds of millions of dollars, which really narrows the companies and countries we can look at. In the case of PetroChina, the biggest company in the world's most populous country, we were only able to invest $400 million.

In Brazil, there's a great beer company a friend ran and we should have invested in it. He's a great manager. Brazil wouldn't be off limits, but we would have to be able to invest a lot of money in a good business we can understand at a good price. And it would have to be cheaper than a comparable U.S. company, to compensate for the extra risk and our relative lack of knowledge about the market.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*

- *Time: 2006*

back to the questions.

Investing in Russia?

In 1998, via our ownership in Salomon Brothers, we were in the oil business and drilled for oil in Siberia. They were happy to have us drill, but when it came time to take the oil out, it was harder. Given that experience, [we won't be rushing back to invest in Russia].

About three years ago, I had breakfast in Sun Valley with Mikhail Khodorkovsky [the former CEO of Yukos], who was considering a listing on the New York Stock Exchange. He's now in jail and Yukos is in bankruptcy with tax claims. It's a little hard to develop a lot of confidence that [Russia] has changed vis-a-vis its views toward capital, especially outside investors and capital.

[CM: [This reminds me of a story that ends:] "If they ever do find any oil, that old man will steal it." I'm afraid we have the same problem today in many countries with oil.]

Charlie, didn't we have the livelihood of our guys threatened [in Russia]? We sent guys to get the [oil-drilling] equipment and they were told that not only would they not get the equipment, but if they tried, the guys wouldn't get out either. It wasn't that long ago.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Investing in Africa?

[Q - In respect to Africa how would you find above average stocks given the information costs and limitations in Africa? What is your best advice about obtaining acceptable information?]

There aren't too many companies in Africa that are big enough for Berkshire to look at, except for maybe DeBeers, Anglo-American, or SAB Miller. Also, there isn't a lot of information on these companies. I know South Africa has stock information available. The key is to get good information.

In comparison, Korea has plenty of information available. There is Kissline online. Within seconds I can get Korean Stock Exchange Information, Annual and even quarterly information. I'm not sure if the same is available online for South Africa. This is OK because I don't need to win every game, just the ones I play.

I have three mailboxes in my office – IN, OUT, and TOO HARD. I was joking with the MIT students that I should have a TOO HARD bin and they made me one, so now I have it and I use it. I will only swing at pitches that I really like. If you do it 10 times in your life, you'll be rich. You should approach investing like you have a punch card with 20 punch-outs, one for each trade in your life. I think people would be better off if they only had 10 opportunities to buy stocks throughout their lifetime. You know what would happen? They would make sure that each buy was a good one. They would do lots and lots of research before they made the buy. You don't have to have many 4X growth opportunities to get rich. You don't need to do too much, but the environment makes you feel like you need to do something all the time.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

May I ask you your reasons for coming to Germany?

WB: We want more family owners of German businesses. We want more owners who, when they think of the need to monetize, have Berkshire on their radar screen. We aren't as prominent in Germany as we are in the US. We are looking for good companies and we want them to know us. We should be better known in a month.

CM: Germany is particularly impressive—an advanced civilization, especially in engineering and industrials, with German advancement and inventiveness. It is amazing the impact Germans have had on field after field in America. Look at all the machines in factories with German names.

WB: Sounds like Charlie should go to Germany.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Are you concerned with the effects of foreign economies and their weak currencies? These have played a role in Coca-Cola□’s profitability recently - and Coke is trading at P/E multiple of 75. (1999)

I don□’t have anything to offer on selling Coke [as an investment]. The dollar [and other currencies relative to the dollar] doesn□’t concern me; it doesn□’t affect my decision. In the last couple of years, yes, the dollar□’s strength has hurt. But it□’s in Coke□’s best interests to have countries do well in the long run, to grow and increase the income of its population. The share of market and what we call the □“share of mind□” are the important things in Coke□’s business.

It□’s true that case growth slowed last year and continues to be slow, but that□’s happened before. We□’ll be around with Coke ten years from now.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

Do you foresee Berkshire buying any businesses in India or China in the near future?

WB: We would like to. The odds are somewhat against buying anything outside of the USA. MiTek has possibilities outside the USA. If we get lucky, we'll buy one or two businesses in the next 3 or 4 years. Where they'll be, who knows? We wouldn't rule it out. We looked at insurance in India and China, but they restrict ownership in any domestic insurance company. The limit is 25% in China, and I think 25% in India. We probably don't want to go in to own [only] 25%. We want to have more ownership to make it worthwhile. You will see the day that Berkshire owns businesses, in my view, in both countries.

CM: Nothing to add.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Please talk about Greece, the future of the Euro and fiscal discipline in the world. Greece and other countries are clearly in trouble and BRK has investments in Europe. How is BRK positioned for currency failures? What is your advice to investors regarding the future of the Euro?

WB: Charlie and I haven't talked about Greece recently, I'm interested in his opinion. We have a lot of exposure in many countries, but we have it both on asset and liability side. We have much net worth in euro assets, but also substantial liabilities in Euro as well. When we reinsured Equitas we took on billions of liabilities around the world and we were paid in USD. If Euro depreciates we benefit with Equitas, but we lose on other areas. I can't tell you our net exposure on Euro or Sterling on any given day, we have no dramatic exposures in any currency. Doesn't mean it isn't important. Charlie will now clearly explain how important the Greek situation is and its affect on the global economy. [laughter]

CM: We are generally agnostic about currencies, about relative values. We are not agnostic about direction. Greece is an interesting example. Past conservatism in US gave the country wonderful credit. We used it to win World War II, help Germany and Japan in one of the most constructive foreign policy decisions in history of world. Now the US doesn't have as good credit since it has been using it so heavily. Greece is just a start. It is dangerous when governments push their credit so hard. When you have blown it in past, it's not as good today. Responsible voices are realizing we are nearer trouble from lack of government credit than ever before in my lifetime.

WB: You have to distinguish between borrowers in their own currency (like US and Japan) and those who borrow in other currencies because creditors don't trust them. When weaker credits borrow in other currencies, it can really put you out of business really quickly. They can't print USD. That has caused failures. The EU – it is a really interesting situation. Greece is sovereign but can't print their own currency – they have Euro. Euro was an experiment, and it is a test case playing out here – of a country using a common currency but is sovereign on promises to citizens. I don't know how it ends, but I'm not forecasting anything – I just try not to watch movies like that. This will be high drama. We don't make big currency plays, and we did one a few years ago and did okay. I would say this - that events of last few years make me more bearish on ALL currencies holding value over time. If you really could run deficits of 10% of GDP and do it a long time – world would have done it more, because that is really fun! Most understand it can't be kept up. How world weans itself off deficit financing will be interesting to watch. As long as US borrows in USD, there is no possibility of default. If world won't take USD debt, we have problem. You don't default when you print your own currency.

CM: Published statistics are misleading. Debts are stated in government bonds outstanding. The unfunded promises are miles bigger than bonds outstanding. They don't bind if you grow GDP at 3% per annum per person, but if you get to where growth stops, you will have enormous social strains, and god knows what the impacts will be.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What is the most important thing you learn from China?

WB: China is an amazing economy. Growth on a per capita basis is amazing. There were 290M people in 1790 (and only 4M in the US) in China but for some reason for 170 yrs very little progress was made. The potential of the Chinese is now being realized. It is a sight to behold. However, they haven't taught me to eat Chinese food.

CM: China has some very rare people in BYD. No other lesson is as important as that one.

WB: Sprite outsells Coke 2:1 in China. Amazing economy, growth will last a long time. In 1790, there were 4mil people in the US, and 290m in China. And there was very little growth in quality of living in China over those 200 years through 1990. They have major resources of land and minerals. Potential of Chinese is huge. Charlie and I are going over there at the end of September. They haven't taught me how to eat Chinese food.

CM: I always knew Chinese people had potential for huge and rapid progress. I could see in Chinese Americans. They came to America as coolies or slaves, and they rose so fast. I underrated how fast it could happen – they are setting record for advancement of human civilization.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

How will Buffett invest in China in the future? What will happen to the purchasing power of China's large holdings in U.S. Treasuries?

Buffett: We respond to opportunities as we see them. We will see things to do over time. Some things are restricted to U.S. [investors] in China. We can't own more than 24.9% of an insurance company in China. China is a huge market. We would have bought more than 10% of BYD, if they had let us. If we run a $250 billion trade deficit with China, they have $250 billion to do something with. The Chinese can't get rid of their dollar holdings. Chinese dollar assets will increase as long as they run a [trade] surplus with the U.S. To date, they've acquired mostly U.S. government bonds. It's a major problem for them to decide what to do with U.S. dollars. Anyone who owns dollar obligations outside the U.S. will have less purchasing power in the future.

Munger: If I were a Chinese finance minister, I would do what they're doing. China has one of the most progressive economic policies in the world. I have nothing but admiration for Chinese economic policies. They will be very hard to compete with all over the world.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Why is car insurance business not expanding globally? Why not China?

WB: We've known for a long time that there is no shortage of drivers around the world. In China and India, we can only own a 24.9% stake, so we'd rather have our managers work hard on 100% than 24.9%. We have gone from 2.5% to 8% market share in Geico. We don't think we can build those advantages in other markets in any reasonable time. I agree with Tony's decision that now and probably for a long time to come that there is so much opportunity here in the US that we aren't as interested in other places. Though we keep looking, and are well aware of possibilities. We didn't not go because we didn't know there were cars there.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What are your thoughts about Japan?

My thoughts about Japan? I am not a macro guy. Now I say to myself Berkshire Hathaway can borrow money in Japan for 10 years at one percent. One percent! I say gee, I took Graham's class 45 years ago and I have been working hard at this all my life maybe I can earn more than 1% annually, it doesn't seem impossible. I wouldn't want to get involved in currency risk, so it would have to be Yen-denominated. I would have to be in Japanese Real Estate or Japanese companies or something of the sort and all I have to do is beat one percent. That is all the money is going to cost me and I can get it for 10 years. So far I haven't found anything. It is kind of interesting. The Japanese businesses earn very low returns on equity - 4% to 5% - 6% on equity and it is very hard to earn a lot as an investor when the business you are in doesn't earn very much money.

Now some people do it. In fact, I have a friend, Walter Schloss, who worked at Graham at the same time I did. And it was the first way I went at stocks to buy stocks selling way below working capital. A very cheap, quantitative approach to stocks. I call it the cigar butt approach to investing. You walk down the street and you look around for a cigar butt someplace. Finally you see one and it is soggy and kind of repulsive, but there is one puff left in it. So you pick it up and the puff is free--it is a cigar butt stock. You get one free puff on it and then you throw it away and try another one. It is not elegant. But it works. Those are low return businesses.

But time is the friend of the wonderful business; it is the enemy of the lousy business. If you are in a lousy business for a long time, you will get a lousy result even if you buy it cheap. If you are in a wonderful business for a long time, even if you pay a little bit too much going in you will get a wonderful result if you stay in a long time.

I find very few wonderful businesses in Japan at present. They may change the culture in some way so that management gets more share holder responsive over there and stock returns are higher. At the present time you will find a lot of low return businesses and that was true even when the Japanese economy was booming. It is amazing; they had an incredible market without incredible companies. They were incredible in terms of doing a lot of business, but they were not incredible in terms of the return on equity that they achieved and that has finally caught up with them. So we have so far done nothing there. But as long as money is 1% there, we will keep looking.

- *Source: Lecture at the University of Florida Business School*
- *URL:*

- *Time: October 15th 1998*

[back to the questions.]

Does the Japanese economy affect your outlook?

We don’t really concern ourselves with the macro issues. We can’t rely on the macro to bail us out of a wrong decision on a [specific] business.

Look at See’s Candies. We bought it in 1972 and look what happened right afterwards. In 1973, the Arab oil embargo happened. Then inflation, followed by political turmoil. If we would have had a road map of 1972 to 1982, we’d have seen more inflation, a 20% prime rate, worldwide dissension. But knowing all those macro issues wouldn’t have helped us make a better decision to buy See’s Candies. It’s just more important to recognize a great business when you see it than it is to predict macro issues.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[back to the questions.]

The Investment Industry

Is the individual investor even capable of assessing the riskiness of securities given the large number of institutions/hedge funds in the market?

I don’t think there is much being overlooked now, but I’m forced to look at big things. That’s the advantage you have over me. A few years ago a friend of mine mentioned that I should look at Korea. We bought Posco for 3-4 times post-tax earnings. I found 20 other companies selling at 2-3 times earnings and strong balance sheets. I diversified because I didn’t know the Korean market as well. We are looking for the very unusual. Occasionally things will happen in a securities market that are extraordinary. I like shooting fish in a barrel, but I like to make sure the water’s drained out.

We had that situation a few years ago with the 30 year versus 29 ½ year Treasury bonds. Because of less liquidity, the off-the-run bonds were selling for 30 basis points less, which translates into 3% of principal value. LTCM entered the trade at 10 basis points originally, but they overleveraged and were forced to unwind the position. If you went long/short you could make money really quickly.

Markets are efficient most of the time about most things. But for these opportunities, nobody will tell you about them. They won't be on CNBC and they won't be in brokerage reports. You have to go find them yourself. In 1951, after I graduated from school, I used Moody's and S&P manuals as my sources of information. I went through them page by page. I was like a basketball coach looking for 7-footers. I still have to find out if he's coordinated, and can stay in school. But if someone comes up to me that's 5'6" and says, "Wait 'til you see me handle the ball", I say "No thanks". On page 1443 of Moody's, I found Western Insurance Securities. It had earned $21.66 per share 2 years ago, and earned $29.09 last year. Over the past year the stock was selling for between $3 and $13 per share. I still had to do the work to make sure the earnings were valid. The markets will get it right eventually. But they are there. You don't have to find too many. Finding 10 of these opportunities in your lifetime will make you so rich. But you can't be wrong. You can't have any zeroes. A list of big numbers multiplied by zero will equal zero. You can't go back to "Go".

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

What do you think about all the money flowing into private equity and hedge funds? And do you see the future of buying businesses changing based on the considerable increase in private equity activity?

I'll tell you what I think of hedge funds. Hedge funds are a huge fad. You can pick any ten hedge funds and I'll bet that on average they will underperform the S&P over the next ten years. You can't create more money out of American business than the business itself creates; so most of these hedge funds will not be able to justify their outlandish fees over the long-term and they will disappear. on Wall Street, there are innovators, imitators, and total incompetents. I'm afraid that the majority of hedge funds around the globe now are run by the latter two categories of people.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

back to the questions.

What do you think about how most money is managed?

[CM: We have this investment discipline of waiting for a fat pitch. If I was offered the chance to go into business where people would measure me against benchmarks, force me to be fully invested, crawl around looking over my shoulder, etc., I would hate it. I would regard it as putting me into shackles.]

I would hate it. In 1956 [when I started the Buffett Partnership], I passed out the ground rules, which said "here's what I can do and can't do." The idea of setting out to do what you know you can't do [is terrible].

[CM: The general systems of money management [today] require people to pretend to do something they can't do and like something they don't. It's a terrible way to spend your life, but it's very well paid.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Advice for finding good investment advisors?

The question of finding investment advisors is a hard one. When I was winding up my partnership [in the early 1970s], I was returning a fair amount of capital to people, and they asked me what to do with it. I recommended two people who I felt were exceptionally good and honest: Sandy Gottesman, who just joined Berkshire's board, and Bill Ruane [of the Sequoia Fund]. They were contemporaries of mine, so I knew their results and how they'd achieved them, which is critical. I don't know today's managers, so I can't recommend anyone.

The fact that I only knew two shows the difficulties of finding someone good. The promotional types going around to institutions today are not likely to be good – or have high integrity.

I read an article [in the Wall Street Journal last week] about the two fellows who founded Google and all the problems they'll have with their new-found riches – I almost sent a sympathy card. [Laughter.] They don't have a big problem. They're smarter than the people coming to them. The people with the problem are the people trying to sell them services and want to convince them that they have a problem.

It's merchandising. You don't need these people at all in investing – all these professionals who say you're going to be in big trouble if you don't listen to them. They're selling.

It reminds me of when I asked my former brother-in-law: "How do you get farmers to pay you to sell their cow to Swift or Armour?" He replied, "Warren, it's not how you sell 'em, it's how you tell 'em."

[The Investment Advisory Business]

[CM: Mutual funds charge 2% per year and then brokers switch people between funds, costing another 3-4 percentage points. The poor guy in the general public is getting a terrible product from the professionals. I think it's disgusting. It's much better to be part of a system that delivers value to the people who buy the product. But if it makes money, we tend to do it in this country.]

[Hedge Funds]

I think people who invest in hedge funds, in aggregate, are unlikely to do well. Hedge funds are in the midst of a fad. It's distinguished by an extraordinary amount of fees. If the world is paying hedge funds 2% and a percentage of the profits, and the losers fade away, then it won't be good for all investors. Obviously, some will do well, but not in aggregate.

[CM: Why would you want to invest with a guy whose thought process says, "If a second layer of fees is good, then let's add a third layer."]

Maybe [high fees] are what the traffic can bear, but that reflects an attitude. It's a basically unfair arrangement. In effect, [hedge fund managers] are getting four times standard fees. And I'd bet they don't have all of their own money in their own funds.

Charlie and I both ran partnerships that would generally be classified as hedge funds. There are some similarities, but I don't think we had quite the same attitude that the present managers have.

The fund of funds stuff – it's really unbelievable, piling on the layers of costs. People don't become geniuses because on the door it says "hedge fund." But they may be good at marketing – in fact, if they're good at this, they don't need to be good at anything else.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Comments on the mutual fund scandal? (2004)

[CM: The business of selecting investment managers was recently shown to be even harder by the revelation that a significant fraction of mutual fund managers took bribes to betray their own shareholders.

It was as if a man came up and said, "Why don't we kill your mother and we'll split the insurance money?" And many people said, "Why, yes, I'd like some of that insurance money.]

And they were already rich.

[CM: And many of them think what happened to them was unjust.]

Many people had to know what was going on. Many people at the big funds, even if they were not doing it themselves, had to know. The Investment Company Institute was patting itself on the back and getting cozy with legislators, but nothing was done until a whistleblower went to Spitzer and he publicized it.

Hundreds of people knew and it went on for a long time, but nobody did anything.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Why don't you start a mutual fund?

[Responding to a shareholder's suggestion that they get into the money management business, Buffett replied:]

There would be too many conflicts. We're managing too much money as it is and we can't wear two hats. I certainly wouldn't want to start a fund management company and then pro-rate purchases. I've been pitched many times [to start a fund company] and we could certainly sell it, but once we did so I don't know what we'd do with it. Do you, Charlie?

Munger: No. That's why we don't do it. But that doesn't seem to bother other people.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Opinion of money management as a job to aspire to?

[CM: I think money management is a low calling relative to being a surgeon. I don't like the percentage of our GDP and brainpower and professional effort that's in money management. I don't think it's a good thing for our country, and don't expect it to end well.

The present era has no comparable precedent in the history of capitalism when so many people are trading pieces of paper. We have a higher proportion of the intelligent sections of society involved in buying and selling bits of paper and trying to make money doing it. There are more people doing this than at any time in history. A lot of this reminds me of Sodom and Gomorrah.]

When we've seen baby versions of this in the past, there have been future [very negative] implications [for the stock market].

[CM: When you get so much nonsense going on, it feeds on itself and creates a frenzy. [When this has happened historically,] there have been serious implications.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What's your opinion of the wider money management industry?

Munger: There are certainly a lot more helpers. The ones who come here [to the Berkshire annual meeting] are the best of them, so don't judge the class by the ones here.

The best thing you can do as you think about following in Warren's footsteps is to reduce your expectations.

Buffett: If your wife is going to have a baby, you'd be better to call an obstetrician than do it yourself. If your pipes leak, you should call a plumber. Most professions add value beyond what the average person can do for themselves. But in aggregate, the investment profession does not do this – despite $140 billion in total annual compensation. It's hard to think of another business like that. Can you, Charlie?

Munger: I can't think of any.

Buffett: It's become a bigger and bigger business. And the more you charge, the more money you bring in. It's useful to get into a business like that. When I speak to students, I ask them to name a great business. One answer is running a business school, because the amount you charge is a sign of prestige. No one wants to go to the business school that charges $20,000 in tuition, but if the school charges $40,000, more do.

In the investment field, you now have large portions of investment managers that charge fees that, in aggregate, cannot work out for investors. Obviously, some [investments in high-fee managers] do [work out well]. But you can't pay 2 and 20 [2% annual management fee and 20% of the profits, standard for private-equity and hedge funds], in which you pay the manager 20% of the profits if they make money and, if they don't, they just close up and reopen later. If you charge this in an economy that's only growing a few percent a year, the math doesn't work. The question for you is how to pick out the exceptions [e.g., the managers who will outperform, even after fees]. Everyone who calls on you says they are the exceptions.

I will bet you that if you name any 10 partnerships with over $500 million in assets and put them up against the S&P 500, they will trail the S&P, after fees, over time.

If you know enough about the person and how they've done in the past, you can occasionally find someone. But if you're running a big pension fund, with everyone calling on you, you will likely invest in the best salespeople.

Munger: I think it ought to be a crime [for an investment manager or his agent] to entertain a state pension-fund manager, and it should be a crime for that person to accept it.

The whole concept of the house advantage is an interesting one in modern money management. The terms of the managers of the private partnerships look a lot like the take of the croupier at Monte Carlo, only greater.

Buffett: Is there anyone we've forgotten to offend? [Laughter]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

What effect does large institutional ownership have on stock price volatility?

Never has so much been managed by so few that care so much about what happens tomorrow. So much of the world of investing is people who are trying to beat indexes, and they have a willingness and eagerness to make decisions in the next 24 hours. This condition didn't exist years ago. It has created a “hair trigger” effect. An example of this hair trigger effect was Black Monday in '87. The cause was program trading and stop loss orders.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Industries

Do you invest based on trends or sectors?

We don’t play big trends like demographic trends. They just don’t mean that much. There’s too much money to be made year to year than worry about trends that take ten years to play out. I can’t think of one investment we’ve ever made based on a macro or demographic trend.

[CM: Not only that, but we’ve missed the biggest commodity boom in history – and we’ll continue to miss things like this!]

But we’ll search for new ways to fail! [Laughter]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

What do you think about the utility industry?

I have thought about that a lot because you can put big money in it. I have even thought of buying the entire businesses. There is a fellow in Omaha actually that has done a little of that through Cal Energy. But I don't quite understand the game in terms of how it is going to develop with deregulation. I can see how it destroys a lot of value through the high cost producer once they are not protected by a monopoly territory.

I don't for sure see who benefits and how much. Obviously the guy with very low cost power or some guy has hydro-power at two cents a KwH has a huge advantage. But how much of that he gets to keep or how extensively he can send that outside his natural territory, I haven't been able to figure that out so I really know what the Industry will look like in ten years. But it is something I think about and if I ever develop any insights that call for action, I will act on them. Because I think I can understand the attractiveness of the product. All the aspects of certainty of users need and the fact it is a bargain and all of that. I understand. I don't understand who is going to make the money in ten years. And that keeps me away.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

What do you think of utilities?

The production of electricity is a huge business and it's not inconceivable that we'd invest heavily here.

The Public Utilities Holding Company Act [PUCA], written in 1935, has a lot of rules about what the parent company of a utility can do. It was set up to check abuses that existed then, so it was appropriate at the time. But I don't think there's anything pro-social about limiting Berkshire Hathaway's ability to acquire utilities today. We might have done one or two acquisitions in past years but for PUCA.

[Regarding the Californian Power Crisis] With deregulation, the incentives [for power producers] were changed such that instead of wanting abundant supplies, they wanted tight supplies, which would result in higher prices.

You can't take utilities with a cost of X, invite new producers in with a cost of 3X, and expect prices to go down.

The old system strikes me as better for society.

[CM: "The old system had the NIMBY [not in my back yard] problem. If you let unreasonable, self-centered people make decisions, you'll get into trouble. We may be making the same mistake today with oil refineries."]

- *Source: BRK Annual Meeting 2001 Tilson Notes*
- *URL:*
- *Time: April 2001*

[Re: How Technological Change Might Affect the Utilities Business]

We're going to earn a return on capital employed whether we transmit it the old way or whether some new way emerges. We strive to serve our customers and keep their costs down as much as possible.

Even in terms of choosing which generating sources we use, we follow the will of the people in the states we serve. If they want to pick a more expensive way to generate for some reason, that's okay with us. I don't think anything will change our economics. We certainly don't buy a utility expecting to do something else with it.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

In the domestic soft drink model, is it winner take all, or is there room for three competitors?

Sure, there's room for more than one. I think Coke's market share will grow pretty much year after year. We're talking tenths of a percent, but tenths of a percent are important. The U.S. market is 10 billion cases, so one percent is 100 million cases. It's interesting how regional tastes can be: Dr. Pepper may have a far bigger market share in Texas than in Minnesota ... You can make money with a soft drink company that doesn't dominate the business. You can do a lot better with one that does dominate, but it's not winner take all. It's not like two newspapers in a town of 100,000 or 200,000. There are certain businesses that are winner takes all.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

What do you think of the airline industry?

"The big problem is not aggregate costs, but costs versus competitors." Buffett recalled US Air's difficulties competing against Southwest and concluded, "If your costs are out of line, you're going to get killed eventually."

[Munger: "Airline pilot unions are really tough. It's interesting to see people paid as well as airline pilots to have such a tough union. No airline can afford a shutdown very long."]

If you're in a business that cannot take a long strike, then you're playing a game of chicken with labor. Ironically, if you're weak, you're in a stronger negotiating position.

- *Source: BRK Annual Meeting 2001 Tilson Notes*
- *URL:*
- *Time: April 2001*

back to the questions.

What do you think of the banking business model?

- Banking is a good business - many banks earn high returns on tangible equity
- “Charlie and I have been surprised at how much profitability banks have, given that it seems like a commodity business.”
- Underestimated how sticky customers are and how unaware they are of fees banks charge them
- WFC - $4.00 per share after full taxes on $15 of tangible equity

- If you have a well run bank, you don’t need to be the #1 bank in an area
- Bank ROA is not highly correlated to size
- You may have to pay 3x tangible equity to buy a bank
- Only problem with banks is that sometimes they get crazy and do dumb things…’91 was a good example
- If a bank doesn’t do dumb things on the asset side, it will make good money

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

We've been somewhat surprised at how well banks have done. Some have generated 20% or greater returns on tangible equity over many years, though this is in part due to increasing leverage.

[CM: "We misdiagnosed it and, even worse than that, we haven't changed."

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

Banking, if you can just stay away from following the fads and making bad loans, has been a remarkably good business. Since WW II, ROE for banks that have stayed out of trouble has been good. Some large well-run banks earn 20% ROE. I've been surprised that margins in banking haven't been competed away.

[CM: What you're saying is that we screwed up, because banking has turned out to be better than we thought. We made a few billion [dollars] from Amex while we misappraised it. My only prediction is that we will continue to make mistakes like that.]

It's pretty extraordinary that institutions competing against each other without real competitive advantages can all make high returns. Part of it is higher loan to value ratios than in past years. Some banks get into trouble making bad loans, but you don't have to.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

Financial companies are more difficult to analyze than other companies. They can report whatever earnings they want – it's an easy game to play. For banks, earnings depend on loans and the reserves set aside. It's easy to change and manipulate the reserves.

With a company like WD-40 or a brick company, the financials are easy to analyze. But with financial [companies] it's tough, especially when you throw in derivatives.

There were very high grade, financially sophisticated people who were on the boards of the GSEs [Government-Sponsored Enterprises, such as Fannie Mae and Freddie Mac] and they were not negligent, but it's very tough [to detect the shenanigans that went on].

Charlie and I were on the board of Salomon and Charlie was on the audit committee, and [it's just impossible to evaluate thousands of transactions]. You'll just have to accept that with insurance companies, banks and other financial companies – it's just a more dangerous field to analyze.

With GEICO it's easier because the statistics are quite accurate – it's short-tailed insurance. It's not like asbestos.

I wouldn't fault the ratings agencies. Even the big-name auditors didn't catch it.

[CM: Where you have complexity, by nature you can have fraud and mistakes. You'll have more of that than in a company that shovels sand from a river and sells it. This will always be true of financial companies, including ones run by governments. If you want accurate numbers from financial companies, you're in the wrong world.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[Q - Small regional banks - what would you look at before you buy?]

WB: It is hard to make a categorical decision about regional banks. So much depends on the character of the institution. It will be a reflection of the CEO you have. A bank can mean anything. It can be an institution that is doing all sorts of crazy things. The Bank of Commonwealth was an example. We owned a bank in Rockford, Illinois, run by Dean Aback—he would always run a super, sound bank. You should know the culture of the management and the institution before making the decision to buy a bank. We own Wells Fargo and M&T, but it doesn't mean they are immune. But likely they are immune from institutional stupidity. There was a wise man that said there are more banks than bankers. If you think about that a while, you will get my point.

CM: The questioner is on to something. So many large banks have cast a pall over the entire industry. You are prospecting in a likely territory.

WB: If you took the 20 largest and the 20 smallest banks in Florida, I don't know if you could tell the difference.

CM: It is a territory that has some promise.

WB: That is a wildly bullish statement from Charlie. I may need to go start buying! [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[back to the questions.]

You've recently invested in Goldman Sachs and GE. Is the financial sector a good buy right now?

No sector is a good buy unless you understand the business. However, I do believe that there is good value and great opportunity now in the financial sector because it is extremely unpopular. Sector's themselves don't make good buys, companies that are undervalued make good buys. You know how to value a business, you project the future cash flows discounted to present and buy with a margin of safety. The earnings prospects need to be greater than the current value. Anything that is unpopular is always great to look at. If I was getting out of school right now, I would take a look.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

Your opinion of the gambling industry?

I don't know about which stocks to recommend, but, as long as we're talking about the legal ones, gambling companies will have a perfectly good future. The desire of people to gamble is very high, including in stocks. Day trading comes very close to gambling. People like to gamble. If there's a football game, especially if it's boring, you'll enjoy it more if you bet a few bucks. The human propensity to gamble is huge.

When it was only legal in Nevada, you had to travel or break laws to gamble, but now states are legalizing it. The easier it is, the more people who will gamble. I bought a slot machine a long time ago and put it on the 3rd floor of my house. I could then give my children any allowance they wanted, as long as it was in dimes, and I'd have it all back by nightfall. I wanted to teach them a good lesson. My slot machine had a terrible payout ratio, by the way. [Laughter]

People will always want to gamble. I'm not a prude about it, but to quite an extent, gambling is a tax on ignorance. You just put it in and guys like me don't pay the taxes – it relieves taxes on those who don't gamble. I find it socially revolting when a government preys on its citizens rather than serving them. A government shouldn't make it easy for people to take their social security checks and [waste them pulling] a handle. It's not government at its best. I think other [negative social] things flow from [gambling] over time.

Munger: I would argue that casinos use clever psychological tricks [to get people to gamble], some of which are harmless, but a lot of grievous injury has been done. You won't find a lot of gambling companies in Berkshire's portfolio. [Applause]

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*

- *Time: 2007*

back to the questions.

Opinion on the healthcare industry and its costs?

We looked at healthcare costs, which were exploding a few years ago. Workman's Comp costs have risen dramatically, and are huge for us. $6,000-$7,000 per employee. That's in inflationary part of the US economy and we and our employees can't control it.

Health costs will keep growing and we don't have any answers. But Charlie runs a hospital, so maybe he'll have some insights.

[CM: The quality of the medical care delivered, including the pharmaceutical industry, has improved a lot. I don't think it's crazy for a rich country like the US to spend 15% of GDP on healthcare, and if it rose to 16-17%, it's not a big worry.

But if other countries spend 7-8% [of GDP on healthcare] and have good systems, are we getting a good deal?

[CM: We're not on a dollar for dollar basis. But I'm not [troubled by how much we spend].]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[Re: The Pharmaceutical Industry]

That industry is in a state of flux right now. It’s historically earned very good returns on invested capital, but it could well be that the world will unfold differently in the future than in the past. I’m not sure I can give you a good answer on that.

[CM: We just throw some decisions into the “too hard” file and go onto others.]

We get paid not for jumping over 7-foot bars but for finding 1-foot bars that we can step over.

- *Source: BRK Annual Meeting 2003 Tilson Notes*

- *URL:*
- *Time: 2003*

[CM: A lot of people have made a lot of money selling health insurance. I've seen it as Chairman of a central-city hospital [the Good Samaritan Hospital in Los Angeles]. You're right that there have been a lot of bad ethics. A lot of good ethics, too.

Generally, [investing in the healthcare area] goes into the "too hard" pile – unless Warren's been keeping something from me.]

No, we've never done anything in healthcare.

[CM: You [the shareholder who asked the question] are right though – the worst of the ethics is really bad.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Re: fixing the U.S. Healthcare System]

Munger: It's too tough. We can't solve that one. We try to look for easy problems. We don't try tough things. Sometimes life hands you a very tough problem you have to wrestle with – not financial problems for us, but personal ones.

If we were looking at a private-sector solution, we'd look for low distribution costs. You don't want a lot of revenue soaked up in frictional costs, but I don't know how to do that. If we're paying 15% of GDP [for healthcare], you'd think someone would figure it out. Maybe this will come up in the upcoming presidential campaign.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Re: Pharma? How do you value the pipeline of drug companies?]

WB: Unlike many businesses, when we invest in pharma, we don't know the answer on the pipeline, and it'll be a different pipeline 5 years from now anyway. We don't know whether Pfizer or Merck, etc, have a better chance, or which of those will come out with a blockbuster. But we do feel we have a group of companies bought at a fair price that, overall, will do well and should offer chances for decent profits. These companies are doing very important things. I could not tell you the potential in the pipeline. A group approach makes sense. It is not the way we would go at banks. If you buy pharma at a reasonable multiple, you will probably do okay 5-10 years from now.

CM: You now have a monopoly on our joint knowledge of pharmacology.

WB: He gets cranky at the end of the day. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Berkshire has invested in several insurance companies, would you go into the health insurance business?

No. Health insurance is so ingrained into national policy that it is a tough business. It's pretty adversarial. I'm not really that excited about it from a business perspective. I don't want to write policies with high loan loss ratios. That being said, I would buy the stock of an undervalued healthcare insurer.

Insurance is an interesting business. You know, we underwrote a two year life insurance policy on Mike Tyson. I wanted an exclusion against women shooting him, but they wouldn't let me.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

Have you ever considered concrete as an understandable business for investment purposes?

They would have advanced raw materials. How we value a business is what the game is all about. If you cannot value a business, you cannot value a stock. The efficient market theory equates to "nobody knows anything". Investment-finance teaching in the US needs to focus on and not miss the opportunity to promote thinking intelligently about how to invest — and in doing so, the person becomes a better manager.

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

[back to the questions.]

What do you think of the telecoms industry?

I don't have the faintest idea how to evaluate what telecom companies will look like down the road. I only understand a little of what they do. I suppose if you gave me some information, I could regurgitate it back to you but in terms of understanding their economic characteristics down the road, I don't know. Charlie, what do you know about the telecom business?

[CM: Less than you do.]

Then you're in trouble. I know people will be drinking Coke, using Gillette blades and eating Snickers bars in 10-20 years and have rough idea of how much profit they'll be making. But I don't know anything about telecom.

It doesn't bother me. Somebody will make money on cocoa beans, but not me. I don't worry about what I don't know -- I worry about being sure about what I do know.

[CM: Berkshire in its history has made money betting on sure things.]

We might buy some junk bonds in that business [telecom], and we have, but we expect losses in junk bonds -- though we expect a decent result -- because we're dealing with institutions that have demonstrated problems. In some cases -- not at all with Level 3 -- there are management issues. We expect to have significant losses, and we haven't seen our biggest loss yet, believe me. It's like being an insurer of substandard risks -- you'll have more accidents, but can charge a premium.

We don't buy businesses in which 15 will be train wrecks and 85 will work out OK.

There are all kinds of businesses where you can't predict what they're going to earn, so we try to favor a few where we can.

At Level 3, they are fine people and they acknowledge that they borrowed too much money. I have yet to see an electron and have no working relationship with them at all. I don't know anything about the technology at all, but I understand the people involved. It's of a different sort [of investment] than we usually do, but we're happy we did it.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Your opinion on the auto industry?

[GM CEO] Rick Waggoner and [Ford Chairman] Bill Ford have both been handed, by past managers, extremely difficult hands to play. They're not the consequences of their own doing, but they have inherited a legacy cost structure, with contracts put in place decades ago, that make it very difficult for them to be competitive in today's world.

GM and Ford don't sign long-term contracts to pay high amounts for steel, but that's what they've done with annuity and healthcare payments to employees. The result is such expenses are far higher than that of competitors, so it's not a fair fight.

GM once had 50% market share, and it's fallen to 25%. Even if it was still 50%, they'd still be in trouble.

I'm not sure what I'd do if I was elected CEO of GM. It reminds me of what Bill Buckley said when asked what he would do if he actually won his race for New York mayor back in 1965 and he said, “The first thing I’d do is ask for a recount.” (Laughter) Well, that’s what I’d do at GM.

The UAW says, “We have a contract and we have a deal.” GM has set aside $90 billion for pensions and another $20 billion or so for healthcare, yet has a market cap of only $14 billion. That’s not sustainable.... Something will have to give.

If a company had to pay an extra $2,000 per car more for steel, everyone would realize there was a crisis and demand a quick solution, but that’s not happening.

Part of the problem arose because [the actions of previous managements] bore no accounting consequences. Back in the 1960s, companies didn’t have to account for pension costs on an accrual basis, and didn’t have to do so for healthcare costs until the late 80s or early 90s. But those costs are very real...

[CM: Warren just gave a very optimistic prognosis in my view. Just because the full consequences haven’t yet hit, doesn’t mean there isn’t a huge problem. It’s as if someone jumped out of a window on the 42nd floor. As you go by the 20th floor, you’re still OK, but that doesn’t mean you don’t have a real problem. (Laughter)

If I was the President of the U.S., Governor of Michigan or the CEO of GM, I wouldn’t wait. I’d address the problem right now because no one’s coming to save you.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What's your view of the newspaper industry? versus other media?

People will always want to be entertained and informed, but the choices for doing so were far fewer 50 or 60 years ago. As the years have gone by, technology has produced a variety of new ways to be informed or entertained, but we still only have two eyeballs and 24 hours per day. And any time there’s more competition, generally that’s bad for business.

Newspapers are still highly profitable, especially compared to tangible capital employed, but the outlook isn't nearly as rosy as it was 20-30 years ago. The audience is going down and that has to erode the economics over time. People also like to talk about how more competition [is good for business, but it's not true].

At one time, [the major television networks] had a license from the government and were the only three highways to the eyeballs of hundreds of millions of people for advertisers like GM, Ford and Gillette to choose from. But now there are many highways. It's hard to imagine these businesses [the networks] getting better in aggregate over time.

The key would have been to buy the NFL [National Football League; e.g., content] at inception.

We still own World Book [encyclopedias]. At one time, we sold 300,000 sets for $600 each. The problem is [that with the advent of the Internet] you could get a good bit of the same information without cutting down tress, delivering the books, etc. The problem wasn't that the product wasn't worth the money, it's that people have other alternatives. I don't see anything that will change this.

[CM: It's simplicity itself that its future will be way worse than its past.]

What multiple would you pay for a business earning $100 million, which is going down 5% per year, versus the same business with earnings growing 5% per year? I'm not saying those are the numbers I'd use for newspapers, by the way. I do not think newspaper circulation, or ad pages, will be larger in five years – even in areas of the country that are growing [in population].

Newspaper multiples are uncomfortably high if you believe profits are going to decline. Prices today do not reflect earnings declining at 5-6% per year. There's also the risk that [owners of newspaper businesses] don't fully recognize the situation and will buy other newspapers at too high a price.

This comes from someone who loves newspapers and couldn't do without them. I read five newspapers every day. Charlie does too. But people can [do without them]. The decline, if anything, has accelerated somewhat. When they take people to the cemetery, they're losing readers, but when they graduate from college, they're not gaining any readers. The virtuous cycle isn't true anymore, but prices don't reflect this.

We love them as products and thought they were the greatest of companies with bulletproof franchises. We were wrong.

[CM: I have a greater sin to confess to. I once thought GM was a bulletproof franchise.

But we have a method of coping: we just put it in the "too hard" basket. If something is too hard, we move on to something that's not too hard. What could be more simple?]

It used to be the easiest business model to understand.

In the 1991 annual report, I wrote about [advertising] preprints, and how there was nothing magical about the newspaper, but that it brought the preprints inside the house. [I'm not sure what Buffett was talking about here – the word "preprint" doesn't appear in the 1989-1992 annual reports, but his discussion in his 1991 letter of the declining economics of the media business is fascinating and his conclusion was amazingly prescient: "Most media properties continue to have far better economic characteristics than those possessed by the average American business. But gone are the days of bullet-proof franchises and cornucopian economics."]

It has been interesting for me to watch both direct owners and investors in the newspaper business resist seeing what's right in front of them. It [newspapers' superior economics] went so long the other way. You couldn't make a mistake buying a monopoly newspaper business [meaning a town in which there was only one newspaper] until 1975 or 1980.

[CM: If the technology hadn't changed, they'd still be great businesses. Network TV [in its heyday,] anyone could run and do well. If Tom Murphy was running it, you'd do very well, but even your idiot nephew could do well.

Fortunately, carbide cutting tools [such as those made by Iscar] don't have these types of substitutes.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

What advice do you have for long-suffering New York Times shareholders and what do you think of its dual-class share structure?

As for the “long suffering”, as you put it, shareholders of the New York Times, I don’t blame the Sulzbergers for what’s happened. [Here is the bio of Arthur Sulzberger Jr., the Chairman and Publisher of the New York Times Co., and here is a 2005 BusinessWeek article about the family, the company and the challenges they face.] We’ve said for a long time that we thought newspapers were overpriced because investors were looking in the rear-view mirror.

As for different share classes [which the NYT has], I own about 30% of Berkshire A and B shares, so there’s no voting difference.

The woes of the newspaper business have nothing to do with the dual-class structure.

Let’s suppose Mr. Gutenberg [Johannes Gutenberg was the inventor of modern printing] in the 1500s [actually 1400s; he lived 1400-1468] had become a day trader or hedge fund manager instead, so that we never had printing. But along came the Internet and cable TV [as we have today]. Now imagine that someone came along saying, “I have a great idea: let’s chop trees down, buy expensive printing presses and buy a fleet of delivery trucks, all to get pieces of paper to people to read about what happened yesterday.” I don’t think we’d be backing him. [Buffett’s point is that if newspapers didn’t exist, no one would create them now.]

It happened that newspapers came first and people have become accustomed to them. They have momentum on their side from the past, but I don’t care how smart you are, you’re not going to be able to do much to reverse their decline.

Some smart guy came to the Los Angeles Times and said he was going to take circulation up to 1.5 million. Well, it’s now at 800,000. I don’t know if even William Randolph Hearst could do much to change this.

The same thing happened to us with the World Book Encyclopedia – its sales have dropped from 300,000 to 22,000.

The companies that have not had dual-class structures have fared just as badly. For example, we own The Buffalo News, and earnings are down 40% from the peak. Despite terrific management and high market share, earnings are going down. It's a fact of life.

Munger: He said the dual-class structure is intrinsically wrong. It was in the original contract when the New York Times Co. went public. Stamping your foot if you don't like it strikes me as immature.

Buffett: Sulzberger [Arthur Sr.] would not slash staff and did not follow the typical business school approach – and look at his success. All the others fell by the wayside. I don't know if 10-15 years from now, the New York Times will be viewed as having played an inferior hand.

The Los Angeles Times will have more trouble monetizing their reputation on the Internet when compared to the New York Times.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Q - Would there be a compelling price at which Buffett would add another newspaper to Berkshire's portfolio?]

Buffett: There's an evolutionary situation with newspapers. I read five a day and so does Charlie. We'll be the last people reading a newspaper, with a land line by our sides. [laughter] Most newspapers in the U.S. we would not buy at any price. Twenty to forty years ago, they were essential to customers and advertisers. They had pricing power, but they've lost their essential nature—essentiality has eroded. Erosion accelerated dramatically, and it won't end based on anything on the horizon. We do not see anything to reverse it. They are essential to advertisers only as long as they're essential to readers. Ten years ago, the head of The Buffalo News said that on an economic basis, Berkshire should sell The Buffalo News. We could have sold the business for hundreds of millions. Not so today. As long as we're not losing money forever and there are no union problems, we won't sell. There are around 1,400 daily U.S. papers, and nobody has found the model that works. We'll play it out as long as we can.

Munger: One hundred percent right. Monopoly daily newspapers were impregnable. It's a national tragedy for newspapers to die off. They kept government more honest than they otherwise would be. What replaces it will be less desirable.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

[Q - Are you still down on newspapers? Ipad and other e-reading technologies – will it end up with contraction in earnings retained by content provider or by distributor?]

WB: When money at newspapers came from advertising – it was on average about 75%, they used to be only game in town, and what a difference that makes, when you aren't the only game in town. It is very tempting, without substantial circulation, but the math is tough – printing costs are high and distribution is tough. But I don't understand it, and I can't make an affirmative decision. [ABC] puts out Fast Facts, I look at circulation of many papers. In Buffalo we were down less than many places. SF Chronicle was down 20%, Dallas too – many people are dropping the paper. World has changed about the essential value of newspapers. Nothing looked more bullet proof than daily newspapers 40 years ago, and that has melted away. It is a form of news and entertainment that has lost its immediacy, it is not the essential place to get information. You looked for stocks and weather and sports – advertisers were there because it was best and only microphone. The problem is self-reinforcing, subscribers leave and advertisers leave too.

CM: Independent newspapers due to accidents of history became dominant in their towns. The world was better because they were strong, because they kept the government in check – they were called the fourth estate. We are losing something that we have no substitute for. I don't have the faintest idea what to do about it.

WB: Our newspaper hit 300k at peak on Sunday, and now down 100k. Philadelphia, was down 40k in a single year. The advertiser doesn't need you. Your ability to price evaporates. We met Lord Thompson who owned paper in Council Bluffs.

We asked him, “Have you ever been there?” “I wouldn’t dream of it” he said. We asked, “You seem to increase price every year. What can they do about it?” He replied “Nothing, I tell my US managers to price to make 40% pretax and above that it may be gouging.

CM: Politicians are not behaving better as newspapers are weakening. We are going to miss the newspapers’ power.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What are your views on the railroad industry?

I don’t think the railroad industry will be a lot more exciting, but the competitive position of the railroads has improved somewhat since 20 years ago. There’s been progress on labor issues and an improved competitive position vis-a-vis truckers. Higher oil prices hurt railroads, but hurt truckers more by a factor of four. What was a terrible business 30 years ago, operating under heavy regulation, has become decent and could be better over time. But it will never be a fabulous business – it’s too capital intensive.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

When do you expect to see a return on investment in wind farms and other alternative energy sources?

Buffett: We have the largest wind farm capacity in the country. We are a net exporter of wind energy in Iowa. Iowa has been very receptive and progressive in wind energy. We haven’t raised rates in Iowa in about 10 years. We can use Iowa’s tax credits. We’ve developed a lot at PacifiCorp in wind. You’ll see more and more wind generation by MidAmerican [Energy Holdings].

Munger: Berkshire subsidiaries will be leaders in practically anything that makes sense for utilities. You bought a pipeline in about two hours, didn't you?

Buffett: A durable advantage is that we can act fast. We went from a noontime phone call to a formal offer for Constellation [Energy] by that evening. It didn't work out. We don't ask the lawyers before we do it, we just do it. We can move fast when the time [is right]. We've got the money, and we've got the managers to handle the properties.

[Comment - If Berkshire has the largest wind generating capacity in the country, somebody needs to tell FPL Group, which makes the same claim. To date, wind power has been the most successful among the alternative energy sources.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What industry will be the next growth driver in the 21st century and what do you see that supports that?

We don't worry too much about that. If you'd look at the 1930s, nobody could have predicted how much the automobile and airplane would transform the world. There were 2000 car companies, but now only 3 left in the US and they are hanging on barely. It was tremendous for society, but horrible for investors. Investors would have had to not only identify the right companies, but also identify the right time. The net wealth creation in airlines since Orville Wright has been next to zero. If a capitalist had been at Kitty Hawk and shot him down, would have done us a huge favor. Or look at TV manufacturers. There are hundreds of millions of TV's, RCA & GE used to produce them, but now there are no American manufacturers left.

If you want a great business, take Coca-Cola. The product is unchanged, they sell 1.5 billion 8 ounce servings per day 122 years later. They have a moat; if you have a castle, someone's going to come after you.

Gillette accounts for 70% of razor sales at 80% gross margins and it is the same over time. Men don't change much. Shaving might be the only creative thing they do, like painting the Sistine Chapel.

Snickers has been the #1 candy bar for the past 40 years. If you gave me $1 billion to knock off Snickers, I can't do it. That's the test of a good business. You don't knock off Coke or Gilette. Richard Branson is a marketing genius. He came in with Virgin Cola, we're not sure what the name means, perhaps it turns you back into one, but he couldn't knock off Coke. We look for wide moats around great economic castles. Growth is good too, but we prefer strong economics. In the upcoming annual report I have a section titled "The Great, the Good, and the Gruesome" where I talk about these.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

Specific Businesses

What was your thinking behind the purchase of Berkshire Hathaway?

Well in 1962 I learned from Ben Graham how to assess businesses. He also had the cigar butt analogy for buying businesses...you can usually get one good puff out of it and it's free. Berkshire made a lot of money after WWII (more than Pfizer and Merck) and then it steadily went downhill. Between 1955 and 1965 Berkshire went from 12 mills to 2 mills and they bought their own stock as mills closed. We bought 100,000 shares out of 1 million in 1962 at $7 3/8 and the company had $10-11/share in working capital...I knew I wouldn't lose money because of the working capital. It was losing money but it was also liquefying assets by closing mills. Seabury Stanton was running Berkshire at the time and I went to go visit him. We had an agreement that Berkshire would tender $11-1/2 for my shares of the company. At this point, I could not buy any stock as I had inside information. A few weeks later I received a letter from Old Colony Trust containing a tender offer of $11-3/8. Early the following week, Seabury tendered the stock at 11 3/8. As result, I began buying more Berkshire. Other family members of Seabury Stanton sold their shares to me and I gained controlling interest in the company. The family members weren't very happy with Seabury either really. We ran the mills until 1985.

See's Candy is an example of low rate of return on capital expenditures individually yet the company as a whole makes loads of money because of the great brand of See's. We bought See's in 1972 and every year since then we have raised the prices the day after Christmas and it never hurt the business. When we invest we ask one question, how long do you have to wait to raise the prices? If you are an airline today and you try to raise your prices, an hour later, you will be lowering them because of competition. Not the case with a good brand like See's. If I were to give you a $100 million, I'm not going to, but if I did, you could not damage the See's brand in the minds of 30 or so million Californians. Only See's can do that. Their brand is their promise to provide the quality and service that people have grown to expect.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

What is your analysis of Coca-Cola?

Well, basically I love it, but because the market for Coca-Cola products will grow far faster over the next twenty years internationally than it will in the United States. It will grow in the U.S. on a per capita basis. The fact that it will be a tough period for who knows—three months or three years—but it won't be tough for twenty years. People will still be going to be working productively around the world and they are going to find this is a bargain product in terms of a portion of their working day that they have to give up in order to have one of these, better yet, five of them a day like I do.

This is a product that in 1936 when I first bought 6 of those for a quarter and sold them for a nickel each. It was in a 6.5 oz bottle and you paid a two cents deposit on the bottle. That was a 6.5 oz. bottle for a nickel at that time; it is now a 12 oz. can which if you buy it on Weekends or if you buy it in bigger quantities, so much money doesn't go to packaging—you essentially can buy the 12 ozs. for not much more than 20 cents. So you are paying not much more than twice the per oz. price of 1936. This is a product that has gotten cheaper and cheaper relative to people's earning power over the years. And which people love. And in 200 countries, you have the per capita consumption use going up every year for a product that is over 100 years old that dominates the market. That is unbelievable.

One thing that people don't understand is one thing that makes this product worth 10s and 10s of billions of dollars is one simple fact about really all colas, but we will call it Coca-Cola for the moment. It happens to be a name that I like. Cola has no taste memory. You can drink one of these at 9 O'clock, 10 O'clock, 1 O'clock and 5 O'clock. The one at 5 o'clock will taste as good to you as the one you drank early in the morning, you can't do that with Cream Soda, Root Beer, Orange, Grape. All of those things accumulate on you. Most foods and beverages accumulate; you get sick of them after a while. And if you eat See's Candy—we get these people who go to work for us at See's Candy and the first day they go crazy, but after a week they are eating the same amount as if they were buying it, because chocolate accumulates on you. There is no taste memory to Cola and that means you get people around the world who will be heavy users—who will drink five a day, or for Diet Coke, 7 or even 8 a day. They will never do that with other products. So you get this incredible per capita consumption. The average person in this part of the world or maybe a little north of here drinks 64 ozs. of liquid a day. You can have 64 ozs. of that be Coke and you will not get fed up with Coke if you like it to start with in the least. But if you do that with anything else; if you eat just one product all day, you will get a little sick of it after a while.

It is a huge factor. So today over 1 billion of Coca-Cola product servings will be sold in the world and that will grow year by year. It will grow in every country virtually, and it will grow on a per capita basis. And twenty years from now it will grow a lot faster internationally than in the U.S., so I really like that market better, because there is more growth there over time. But it will hurt them in the short term right now, but that doesn’t mean anything. Coca-Cola went public in 1919; the stock sold for $40 per share. The Chandler family bought the whole business for $2,000 back in the late 1880s. So now he goes public in 1919, $40 per share. One year later it is selling for $19 per share. It has gone down 50% in one year. You might think it is some kind of disaster and you might think sugar prices increased and the bottlers were rebellious. And a whole bunch of things. You can always find reasons that weren't the ideal moment to buy it. Years later you would have seen the Great Depression, WW II and sugar rationing and thermonuclear weapons and the whole thing—there is always a reason.

But in the end if you had bought one share at $40 per share and reinvested the dividends, it would be worth $5 million now ($40 compounding at 14.63% for 86 years!). That factor so overrides anything else. If you are right about the business you will make a lot of money. The timing part of it is very tricky thing so I don’t worry about any given event if I got a wonderful business what it does next year or something of the sort. Price controls have been in this country at various times and that has fouled up even the best of businesses. I wouldn’t be able to raise prices Dec31st on See’s Candy.But that doesn’t make it a lousy business if that happens to happen, because you are not going to have price controls forever. We had price controls in the early 70s.

The wonderful business—you can figure what will happen, you can’t figure out when it will happen. You don’t want to focus too much on when but you want to focus on what. If you are right about what, you don’t have to worry about when very much.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

Coca-Cola is a fabulous company. It will sell over 21 billion cases [of all of its products] around the world and that goes up every year. It’s a really wonderful business that sold at a silly price a few years ago. The stock sold at $80 [in the late 1990s] when earnings were $1.50. Earnings are higher quality today [at $2.18 per share in 2005, while the stock trades around $43]. Every year, Coke accounts for a little greater percentage of the liquids consumed in the world.

It has $5-6 billion of tangible assets and makes a similar amount of pre-tax earnings. There are not a lot of big businesses that earn 100% returns on tangible assets.

The stock was ridiculously overvalued, but you can't blame [CEO Neville] Isdell today for that. You can fault me for not selling at 50x earnings.

I expect we'll own it 10 years from now.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Is it really a good idea to buy stocks in unhealthy products? e.g. Coca-Cola

I've been drinking five cokes a day for years and I feel terrific.

We passed one time on the chance to buy a terrific business, [even] after we [spent the time and] met management. They were fine people, but we didn't want to be in the business. But we'd buy stock in the business.

[I initially thought Buffett might be referring to UST, but a friend emailed me the following: "The company was Conwood in the late 1980s. Conwood was shopping itself to avoid a raider that it didn't want to get involved with. It eventually went private with the Pritzker family of Chicago. Buffett discussed this at a meeting some years back. I think he said he passed on owning the whole thing because of the even slight risk that he'd have to spend any of his time with lawyers suing the company." Another friend added, "Interestingly, Conwood has been gaining market share at UST's expense ever since then, and also collected a huge antitrust judgment against UST a year or two ago. So as usual, WEB and CM were right when they identified it as a terrific business many years ago. But I have no regrets that they passed on the deal. Apart from the moral grounds, we don't need the legal risk."]

I don't have any problem with buying stock or bonds of companies that engage in activities that I wouldn't endorse myself, but I'd have a problem with owning outright and directing the activities myself.

Every retailer sells cigarettes, but it doesn't bother me to own the retailer.

[CM: But you wouldn't own the company that made the tobacco or the advertisements.

Yes. I can't tell you why I draw the line there, but I do. One time, I owned the bonds of RJR, and I'd still do it, but I would not buy the company. We walked [away from] one [situation like this] – we were thinking about it…

[CM: We didn't think very long. We don't claim to have perfect morals, but at least we have a huge area of things that, while legal, are beneath us. We won't do them. Currently, there's a culture in America that says that anything that won't send you to prison is OK.

Eating hamburgers or drinking Coke – that's a choice. If one lives to 75 eating what they want or 85 eating carrots and broccoli – who's lived a better life? I know where I come out on that. [Laughter.]

I've never been near a Whole Foods Market.

[CM: My idea of a good place to shop is Costco – it has these heavily marbled fillet steaks. The idea of eating some wheat thing and washing it down with carrot juice has never appealed to me.]

Charlie and I never disagree on where to eat.[Laughter.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

How do you distinguish the Cokes of the world from the Proctor & Gambles of this world?

Well, P&G is a very, very good business with strong distribution capability and lots of brand names, but if you ask me and I am going to go away for twenty years and put all my family's net worth into one business, would I rather have P&G or Coke? Actually P&G is more diversified among product line, but I would feel more sure of Coke than P&G. I wouldn't be unhappy if someone told me I had to own P&G during the twenty-year period. I mean that would be in my top 5 percent. Because they are not going to get killed, but I would feel better about the unit growth and pricing power of a Coke over twenty or thirty years.

Right now the pricing power might be tough, but you think a billion servings a day for a penny each or $10 million per day. We own 8% of that, so that is $800,000 per day for Berkshire Hathaway. You could get another penny out of the stuff. It doesn't seem impossible. I think it is worth a penny more. Right now it would be a mistake to try and get it in most markets. But over time, Coke will make more per serving than it does now. Twenty years from now I guarantee they will make more per serving, and they will be selling a whole lot more servings. I don't know how many or how much more, but I know that.

P&G's main products--I don't think they have the kind of dominance, and they don't have the kind of unit growth, but they are good businesses. I would not be unhappy if you told me that I had to put my family's net worth into P&G and that was the only stock I would own. I might prefer some other name, but there are not 100 other names I would prefer.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

Opinion on Coke and Gillette? (2002)

Coke's market share is about 50% of the worldwide soft drink business, and Gillette has about 71% by revenues of the worldwide razor blade business -- both are higher than they were when I called their businesses 'inevitables' five years ago.

With the world's population growing 2% annually, it is crazy to think they can grow profits at 15-18% per year, or even 10%, when unit grow is sure to be slower. But people got carried away, due to Wall Street and to some extent, company pronouncements.

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

When I talked about Coca Cola being an "inevitable," I talked about the probabilities that Coke will dominate the global market for soft drinks. I don't think anything will change that. It has a huge distribution system and position in people's minds worldwide. They'll make a little more profit per drink sold over time as well. I don't know how anyone could dethrone them.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Coke and Gillette are off something like 30% from their highs. Do you still consider them exciting businesses?

We don□’t want to dart in and out of businesses we love. It□’s too hard to get the timing right, and then there□’s the problem of taxes.

Coke and Gillette have both had their disappointments. It happens. It□’s not in the nature of everything to go right all the time in a straight line. The same thing goes for Disney.

I see nothing to upset the trendline of the blade and razor business or the Coke business.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

What did you think of the Calpers/ISS proposal that you should not be on Coke's audit committee?

[A shareholder asked what Buffett thought of the Calpers/ISS proposal that he should not be on Coke's audit committee. (From a Forbes article: "The California Public Employees Retirement System, or Calpers, and investor advisory group Institutional Shareholder Services argued that votes for Buffett for the Coke board should be withheld because Berkshire subsidiaries, such as ice cream chain Dairy Queen and food distributor McLane Co., do business with the world's largest soft drink maker... In defending the decision last month, an ISS spokesman said the group didn't want Buffett off the board entirely, just off of the audit committee, which should operate with zero tolerance for any conflicts. The spokesman said they don't make exceptions for anyone, even Buffett.") Buffett replied:]

I would say that whoever suggested that should do 500 sit-ups [this was a reference to a skit in the movie shown before the meeting, in which Arnold Schwarzenegger punishes Buffett for talking about raising taxes in California by making him to do 500 sit-ups].

Actually, Charlie and I have encouraged the idea that shareholders should behave like owners, not sheep – where, in too many cases, they've been shorn. Big institutional shareholders have too long sat on the sidelines when they should have been active. [Now that they're finally waking up,] the question is: Can they behave like intelligent owners? In last year or two, as they've woken up, they've searched for checklists, but frankly, a checklist is no substitute for thinking. Bertrand Russell once said: "Most men would rather die than think. Many do."

A board's real job is to find the right CEO and prevent him or her from overreaching. Not much else matters.

I think it's absolutely silly, if Berkshire Hathaway owns 200 million shares of Coke worth $10 billion, to think that because Berkshire Hathaway sells a few hours of flight training to Coke, that I'm conflicted. It's almost absurd that people don't understand proportionality at all.

I receive $100,000 per year [to sit on Coke's board]. This is obviously a tiny amount of money to me. If we picked someone from the welfare line and gave them the same money, this would represent all of their income, yet they'd be considered independent, but they wouldn't really be. This thinking is kind of silly.

I encourage institutions and large owners to behave like owners and think carefully about what causes to take on.

[CM: The cause of reform is hurt not helped when an activist makes an idiotic suggestion like saying that having Warren on the board of Coke is contrary to the interests of Coke. Nutty behavior undermines their cause.

It's like having a slicing machine in an apple orchard. The machine picks up things like rocks, so you program it to slice only red round things, but when red balloons come down the conveyor belt, the machine doesn't know what to make of it.

Institutions are coming around to new ways of thinking. Hopefully, with evolution, they'll think about what's actually good for the shareholders of the company.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Does McDonald's have the ability to dominate like a Coca-Cola or a Gillette?

In the annual report we talked about Coca-Cola and Gillette in terms of their base business as being what I call the Inevitables, and that related to obviously the soft-drink business in the case of Coca-Cola and razors in the case of Gillette. It doesn't necessarily extend to everything they do, but fortunately in both those companies those are very important products. I would say that in the food business, you would never get the total certainty of dominance that you would get in products like Coca-Cola and Gillette. People move around in the food business from where they eat. They may favor McDonald's, but they will go to different places at different times. If someone starts shaving with a Gillette Sensor Plus, they won't go elsewhere in my view. You'd never get in the food business in my judgment quite the inevitability you would get in the soft-drink business with a Coca-Cola. You'll never get it again in the soft-drink business. I mean, it took 111 years to get to the point where they are. The infrastructure is just incredible. So I wouldn't put McDonald's in the same class in terms of inevitability. That doesn't mean it couldn't be an even better stock investment, depending on the price. But you're not going to get the price from me and knowing Charlie I doubt that you'll get the price from him but I'll give him a chance. (Munger remains silent; Buffett holds a hand-held mirror up to Munger's face and announces "He's breathing, folks, he's breathing." Crowd laughter.)

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

Would you buy McDonald’s and go away for twenty years?

McDonald’s has a lot of things going for it, particularly abroad again. Thee position abroad in many countries is stronger than it is here. It is a tougher business over time. People don't want to be eating--exception to the kids when they are giving away beanie babies or something--at McDonald’s every day. If people drink five Cokes a day, they probably will drink five of them tomorrow. The fast food business is tougher than that but if you had to pick one hand to have in the fast food business, which is going to be a huge business worldwide, you would pick McDonald’s. I mean it has the strongest position.

It doesn't win taste test with adults. It does very well with children and it does fine with adults, but it is not like it is a clear winner. And it is gotten into the game in recent years of being more price promotional--you remember the experiment a year ago or so. It has gotten more dependent on that rather than selling the product by itself. I like the product by itself. I feel better about Gillette if people buy the Mach 3 because they like the Mach 3 than if they get a Beanie Baby with it. So I think fundamentally it is a stronger product if that is the case. And that is probably the case.

We own a lot of Gillette and you can sleep pretty well at night if you think of a couple billion men with their hair growing on their faces. It is growing all night while you sleep. Women have two legs, it is even better. So it beats counting sheep. And those are the kinds of business...(you look for). But what type of promotion am I going to put out there against Burger King next month or what if they sign up Disney and I don't get Disney? I like the products that stand alone absent price promotion or appeals although you can build a very good business based on that. And McDonald’s is a terrific business. It is not as good a business as Coke. There really hardly are any. It is a very good business and if you bet on one company in that field bet on (garbled) McDonald’s. We bought Dairy Queen a while back that is why I am plugging it shamelessly here.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

Could you comment on more on McDonald's.....how does it stack up on the inevitables?

You won't get the Inevitable in food that you will get in a single consumer product, such as blades. If I'm using a Gillette blade today, chances are I'll buy the next generation that comes out. A very high percentage of people who shave (including women) are happy with the product--it's not expensive--and if you're getting a great result, you're not going to fool around. Whereas, a great many decisions on fast food are based on which one you see. Convenience is a huge factor. So if you are going by a McDonald's or a Burger King or a Wendy's, and you happen to be hungry, you may very well stop at the one you see. So there's a loyalty factor, but it's just not going to be the same in food. People want to vary where they eat. Well, I don't, I'm happy to eat [at McDonald's] every day. They don't really have the same desire to vary their soft drink. So no knock on McDonald's; it's just the nature of the kind of industry they're in. Charlie?

[CM: I can't think of anyone before McDonald's that did what they did, create a chain of restaurants on such a scale that worked. A lot of failures ... It's a much tougher business that McDonald's is in.]

It's price sensitive, too.

[CM: Part of that's comparative. You can spend a lot more money on hamburgers in the course of a year than razor blades. You can't save that much by changing razor blades.]

Yeah, the average person in the United States buys 27 Sensor Excels in a year, one roughly every 13 days. I don't know what the retail price is, because they give them free to us as directors (laughter), but if they're a dollar that makes it 27 bucks. Around the world, people are using cheap double edged blades, and they'll keep moving up the comfort scale ladder and Gillette is a direct beneficiary. The difference between having great shaves and so-so shaves and pocks and nicks and scratches is 10 or 12 bucks a year. That is not the type of cost that'll make people change their habits.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: May 1997*

back to the questions.

Opinion of Procter & Gamble?

It's clear that it's a consumer powerhouse of sorts and Gillette, in its field, has about as strong a consumer franchise as you'll ever see (the blades and razors part of it).

Retailers are becoming more concentrated and brands of their own, so the struggle between manufacturers and retailers will continue. If I were on either side, I'd want to strengthen my hand by getting bigger. I think P&G and Gillette will be stronger as a combined enterprise, given the strength of the Wal-Marts and Costcos of the world.

I don't know a thing about P&G's pharmaceutical business. [A shareholder specifically asked about this.]

[CM: That makes two of us.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*

- *URL:*
- *Time: 2006*

back to the questions.

Reasoning behind the PetroChina investment?

PetroChina is not opaque. It's very similar to big oil companies elsewhere in the world. It's the 4th most profitable oil company in the world – it produces as much crude as Exxon. It's not complicated – it's a big integrated oil company, so it's fairly easy to get your mind around the economics of the business.

The annual report will tell you more about the business than [the annual reports of] other oil giants. They tell you they'll pay out 45% of their earnings, barring the unexpected. I like knowing that that cash will come to Berkshire.

It was bought because it was very, very cheap by any metric – far cheaper than Exxon, BP, Shell... You could say it should be cheaper, given that it's 90% owned by the government of China, which is a factor, yes, but not so big for me. If you read the annual report of PetroChina, you'll have as good an understanding of the company as reading the annual report any other oil company. Then, you can think about risks such as a disruption of US-China relations.

[CM: I think if it's cheap enough, you can afford more country risk or regulatory risk. It's not complicated.]

There's Yukos, the big oil company in Russia. In evaluating country risk, you can reach your own judgments. In our view, PetroChina had less risk.

[Later in the meeting, Buffett and Munger returned to the discussion of this company:]

You don't need any blinding insights to invest in PetroChina. They're producing 2.5% of the world's oil, it's priced in US dollars, they control a significant part of the refining in China, and they pay out 45% of their earnings in dividends. If you're buying something like that at 1/3 the valuation of comparable companies, it's not hard. You just have to do the work.

[CM: But when you were buying, no-one else was. It required uncommon sense.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

We bought it a few years ago, investing $400 million. It was my first investment in a Chinese stock.

I read the annual report. They produce 3% of the world's oil, about 80% as much as Exxon Mobil. Last year, it earned $12 billion in profit – only maybe five US companies earned as much last year.

The total market value when I bought it was around $35 billion, so I paid only three times last year's earnings. The company does not have unusually large amounts of leverage and – this is unusual – has a stated policy of paying out 45% of its earnings in cash, so that's a 15% cash yield [based on last year's earnings, since Berkshire bought it at 3x those earnings].

The Chinese government owns 90% and we own 1.3%, so if we vote with them, together we control the business. (Laughter)

Unfortunately, we don't own the same shares [as the Chinese government]. [We own another class of shares such that] we had to report our interest [in the company] at 1.3%. We would have liked to buy more, but the price jumped up [after our ownership stake was disclosed].

[CM: It would be nice if this [finding really cheap stocks] happened all the time. Unfortunately, it doesn't.]

I simply read the annual report. I had no contact with management nor did I attend any management presentations. I just sat in my office and invested $400 million, which is worth $1.2 billion today.

I also looked at Yukos, the big Russian oil company [at the time I bought PetroChina] and compared the two at the time. PetroChina was far cheaper and I thought the economic climate was likely to be better in China. Yes, there was risk of tax laws or ownership rights changing, but the price was ridiculous.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[Q - In 2002, you invested in PetroChina and all you did was read the annual report. Most professional investors have more resources at hand. Wouldn't you want to do more research? What do you look for in an annual like that? How could you make the investment only on a report?]

WB: I read it in the spring of 2002, and I never asked anyone else their opinion. I thought it was worth $100 billion after reading the report. I then checked the price, and it was selling for $35 billion. What is the sense of talking to management? It doesn't make any difference. If the market value was $40 billion, you would need to refine the analysis. We don't like things you have to carry out to 3 decimal places. If someone weighed somewhere between 300-350 pounds, I wouldn't need precision — I would know they were fat. If you can't make a decision on PetroChina off the figures, you go on to the next one. You weren't going to learn more if you thought their big [oil] field was going to decline out slightly faster, etc.

CM: We have lower due diligence expenses than anyone in America. I know of a place that pays over $200 million to its accountants every year, and I know we are safer because we think like engineers — we want margins of reliability. It is a very dicey process.

WB: If you think the auditors know more about an acquisition, then they should run the business and you should take up auditing. When we got the call on Mars-Wrigley I wasn't going to look at labor costs or leases. The value of Wrigley does not depend on the value of the lease or an environmental problem. There is a whole lot of trivia that doesn't mean anything. I never made an investment that would have been avoided due to conventional due diligence. We would have lost deals. On big deals, people rely more and more on process. When people want a deal, they will come to us. Mars only wanted to deal with Berkshire — there were no lawyers involved and no Directors involved. I got a call, it made sense, and I said yes. There was no material adverse change clause. Our $6.5 billion will be available regardless, even if Ben Bernanke runs off to South America with Paris

Hilton. [eruption of laughter] That assurance is worth something. If you say, 'I'll do it, but I need X, Y, Z, etc.'— that is costly.

[Q - I'm here with a group of Chinese executives. We came here to see how companies should be run. You did a quick trade on PetroChina. What comes to your mind when selling? Any suggestions for these Chinese executives?]

WB: I met Dr. Gao recently from the China Investment Corp. for lunch. I was very impressed with him. We had lunch in Omaha. PetroChina was a $35 billion company when we bought [and I thought it was worth $100 billion]. When oil was at $70-75 per barrel, the analysis was the same but I then thought it was worth about $275-300 billion. That is about where it was then trading, so we sold. It went up significantly after- wards because of the A-share listing, and at one point, it became the most valuable company in the world by market cap. They've done a terrific job. If it went to a significant discount, we would buy again. I'm not so sure we don't have a lot to learn from China vs. what we have to teach. China has a remarkable society. I traveled 45 minutes outside of Dalian, and saw hundreds of plants that were developed in recent years. The Chinese are starting to realize their potential. There is lots of ability, but the system did not realize its potential. I think it will continue to get better. I would look for the best practices and I would discard the rest. If you look at effective individuals—why do people want to be around them? You should copy those qualities. I would look for what I admire and emulate it, and try not to let distasteful things be copied.

CM: I hope you will go back to China and tell them that you found one individual that really approves of Confucius' respect for elderly males.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Reasoning behind the National Indemnity investment?

We are very big in insurance and having the wrong incentives in place could be very harmful.

[Buffett had prepared slides and had them put up on the screens in the convention center. Slide 1 showed Berkshire Hathaway's balance sheet shortly before it bought National Indemnity.]

For 15 minutes each year, Jack Greenwald [the owner of National Indemnity] would get frustrated with something and want to sell his company. I told Charlie that the next time he was in heat, bring him to me. So, we bought it in '67 for $7 million.

[Slide 2 showed premium volume for National Indemnity from 1980 through 2003. It was $80 million in 1980, rose to $366 million in 1986, then declined nearly every year down to $54 million in 1999, and then spiked up to $595 million in 2003. Buffett highlighted the decline from 1986 to 1999 and asked:]

How many public companies in America would see premiums go down every year for such an extended period?

[Slide 3 showed the number of employees at National Indemnity from 1980-2003. The number rose from 1980-86 and then declined from 1986-99, but much more slowly than premiums declined. Buffett noted:]

We never fired anyone – the decline in headcount was solely due to retirements. The key is you can't fire people if they don't write business, or they'll write business. You must be able to tell them that if they write no business, their job is not in jeopardy.

[Slide 4 showed National Indemnity's expense ratio from 1980-2003, which was as low as 25.9% in a peak year, and as high as 41% in the worst year, 1999. Buffett noted that:]

Some companies would feel that this is unacceptable. [We don't.] We can take an expense ratio that's out of line, but can't take writing bad business.

[Slide 5 showed the combined ratio at National Indemnity from 1980-2003. The combined ratio exceed 100 during a few bad years for the industry in the early 1980s, which is what led to the hard market that peaked in 1986, but National

Indemnity's combined ratio has been below 100 – e.g., the business has been profitable – in every year for the past 20. Buffett pointed out:]

In 1986, our combined ratio was only 69.3 because we did the most volume ever that year, up to that point [the company has done more volume in the past few years]. We coined money when we wrote a lot of business, and made a little when we didn't. We're the only company like this. We'll have a high expense ratio when business is slow.

National Indemnity was a no-name company when we bought it, and has no copyrights, patents, etc. to distinguish it, but they have a record like no-one else because they had discipline.

You can't run an auto or steel company this way, but it's the best way to run an insurance company.

[CM: Nobody else does it, but to me it's obviously the only way to go. A lot about Berkshire is like this. Being controlling owners is key – it would be hard for a committee to make these kinds of decisions.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Reasoning behind the HomeServices investment?

HomeServices will grow. It owns 15-16 local real estate firms, which retain all of their local identities – akin to the whole Berkshire model. Managers operate them as if they owned them themselves. We have no national identity, unlike Cendant, which operates under a few big names.

There's no question that we'll buy a few – or a lot – of [real estate brokerage] companies over the next 10 years. It's a great company with great management. Last year, we participated in $50 billion of transactions – but this was only a small percentage of the national total. We're big in California, Minnesota and Nebraska.

It’s a good business, but very cyclical. It’s very good now. We’ll go through a bad period, but we’ll keep buying. I don’t know how big it will become, but it’s conceivable that as we grow, we’ll add things like buying furniture. When people buy a new house, they need a lot of things.

[In response to another question about whether the internet will threaten the commission structure of real estate brokers like HomeServices, Buffett replied:]

I think commissions in HomeServices are sustainable. Barry Diller is interested in the space via Lending Tree, and the internet is a threat to any business, including real estate brokerage. But when I think about the process of owning a home, the for-sale-by-owner (FSBO) was with us 50 years ago and it is now [but it hasn’t affected commissions]. My guess is that 30 years from now, a very significant percentage of home sales will be done through the brokerage system like today’s, though there are people trying to change it.

[CM: [speaking to Buffett]: You tried to change it dramatically in Omaha, and you fell on your ass. [Chuckling.] You tried to take home listing business from the Omaha World Herald with your little paper and failed.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

We don’t think the way homes are bought and sold will change very much. Some will disagree, but we don’t think the internet will change this. [Buying and selling a home] is the biggest financial decision most people will make] and people will continue to want to have a 1-on-1 relationship with a real estate broker. [It also will be] a local business, so we’ve retained the local identities.

It’s almost certain that we’ll be a lot bigger [in this business] in 5-10 years. It depends on how many acquisitions we make, but we’re a good buyer and owner.

[CM: As to whether we’d prefer to buy brokerages or real estate, obviously we like brokerages better.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*

- *URL:*
- *Time: 2005*

back to the questions.

Reasoning behind the Geico investment? (and thoughts on low cost producers)

The idea of direct marketing in auto insurance at GEICO came from Leo Goodwin and his wife. They came from USAA, which was established because US military personnel moved around a lot and had trouble getting insurance. Leo took this idea and broadened it beyond military officers. It's a better system.

Going back 100 years, auto insurance was sold by casualty companies via a system of agents that charged large commissions. It was a cartel. State Farm was formed in the 1920s and had the idea of a captive agency force, which brought down costs. It became the largest auto insurer, and Allstate because #2 following the same model. This was a better system.

Leo bypassed the agents and brought down costs even further.

Every American family has to buy auto insurance. It's not a luxury item, so cost is key and the low cost is going to win. The direct sellers, GEICO and Progressive, will slug it out and will win. GEICO has a tough competitor in Progressive – they've seen how we've done it [the direct model] and are moving to it.

Dell is very efficient. I'd hate to compete with them. If they turn out a decent competitive product at a good price, that system will win.

Charlie is on the board of Costco. Costco and Wal-Mart have figured out how to do this [be ultra-low-cost] and they're winning.

It's always a good idea to go with the low-cost producer over time. Being the low-cost producer of something that people need is a good business.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*

- *Time: 2004*

Right after yearend, we completed the purchase of 100% of GEICO, the seventh largest auto insurer in the United States, with about 3.7 million cars insured. I've had a 45-year association with GEICO, and though the story has been told before, it's worth a short recap here.

I attended Columbia University's business school in 1950-51, not because I cared about the degree it offered, but because I wanted to study under Ben Graham, then teaching there. The time I spent in Ben's classes was a personal high, and quickly induced me to learn all I could about my hero. I turned first to Who's Who in America, finding there, among other things, that Ben was Chairman of Government Employees Insurance Company, to me an unknown company in an unfamiliar industry.

A librarian next referred me to Best's Fire and Casualty insurance manual, where I learned that GEICO was based in Washington, DC. So on a Saturday in January, 1951, I took the train to Washington and headed for GEICO's downtown headquarters. To my dismay, the building was closed, but I pounded on the door until a custodian appeared. I asked this puzzled fellow if there was anyone in the office I could talk to, and he said he'd seen one man working on the sixth floor.

And thus I met Lorimer Davidson, Assistant to the President, who was later to become CEO. Though my only credentials were that I was a student of Graham's, "Davy" graciously spent four hours or so showering me with both kindness and instruction. No one has ever received a better half-day course in how the insurance industry functions nor in the factors that enable one company to excel over others. As Davy made clear, GEICO's method of selling – direct marketing – gave it an enormous cost advantage over competitors that sold through agents, a form of distribution so ingrained in the business of these insurers that it was impossible for them to give it up. After my session with Davy, I was more excited about GEICO than I have ever been about a stock.

When I finished at Columbia some months later and returned to Omaha to sell securities, I naturally focused almost exclusively on GEICO. My first sales call – on my Aunt Alice, who always supported me 100% – was successful. But I was then a skinny, unpolished 20-year-old who looked about 17, and my pitch usually failed. Undaunted, I wrote a short report late in 1951 about GEICO for "The Security I Like Best" column in The Commercial and Financial Chronicle, a leading financial publication of the time. More important, I bought stock for my own account.

You may think this odd, but I have kept copies of every tax return I filed, starting with the return for 1944. Checking back, I find that I purchased GEICO shares on four occasions during 1951, the last purchase being made on September 26. This pattern of persistence suggests to me that my tendency toward self-intoxication was developed early. I probably came back on that September day from unsuccessfully trying to sell some prospect and decided – despite my already having more than 50% of my net worth in GEICO – to load up further. In any event, I accumulated 350 shares of GEICO during the year, at a cost of $10,282. At yearend, this holding was worth $13,125, more than 65% of my net worth.

You can see why GEICO was my first business love. Furthermore, just to complete this stroll down memory lane, I should add that I earned most of the funds I used to buy GEICO shares by delivering The Washington Post, the chief product of a company that much later made it possible for Berkshire to turn $10 million into $500 million.

Alas, I sold my entire GEICO position in 1952 for $15,259, primarily to switch into Western Insurance Securities. This act of infidelity can partially be excused by the fact that Western was selling for slightly more than one times its current earnings, a p/e ratio that for some reason caught my eye. But in the next 20 years, the GEICO stock I sold grew in value to about $1.3 million, which taught me a lesson about the inadvisability of selling a stake in an identifiably-wonderful company.

In the early 1970's, after Davy retired, the executives running GEICO made some serious errors in estimating their claims costs, a mistake that led the company to underprice its policies – and that almost caused it to go bankrupt. The company was saved only because Jack Byrne came in as CEO in 1976 and took drastic remedial measures.

Because I believed both in Jack and in GEICO's fundamental competitive strength, Berkshire purchased a large interest in the company during the second half of 1976, and also made smaller purchases later. By yearend 1980, we had put $45.7 million into GEICO and owned 33.3% of its shares. During the next 15 years, we did not make further purchases. Our interest in the company, nonetheless, grew to about 50% because it was a big repurchaser of its own shares.

Then, in 1995, we agreed to pay $2.3 billion for the half of the company we didn't own. That is a steep price. But it gives us full ownership of a growing enterprise whose business remains exceptional for precisely the same reasons that prevailed in 1951. In addition, GEICO has two extraordinary managers: Tony Nicely, who runs the insurance side of the operation, and Lou Simpson, who runs investments.

Tony, 52, has been with GEICO for 34 years. There's no one I would rather have managing GEICO's insurance operation. He has brains, energy, integrity and focus. If we're lucky, he'll stay another 34 years.

Lou runs investments just as ably. Between 1980 and 1995, the equities under Lou's management returned an average of 22.8% annually vs. 15.7% for the S&P. Lou takes the same conservative, concentrated approach to investments that we do at Berkshire, and it is an enormous plus for us to have him on board. One point that goes beyond Lou's GEICO work: His presence on the scene assures us that Berkshire would have an extraordinary professional immediately available to handle its investments if something were to happen to Charlie and me.

GEICO, of course, must continue both to attract good policyholders and keep them happy. It must also reserve and price properly. But the ultimate key to the company's success is its rock-bottom operating costs, which virtually no competitor can match. In 1995, moreover, Tony and his management team pushed underwriting and loss adjustment expenses down further to 23.6% of premiums, nearly one percentage point below 1994's ratio. In business, I look for economic castles protected by unbreachable "moats." Thanks to Tony and his management team, GEICO's moat widened in 1995.

Finally, let me bring you up to date on Davy. He's now 93 and remains my friend and teacher. He continues to pay close attention to GEICO and has always been there when the company's CEOs – Jack Byrne, Bill Snyder and Tony – have needed him. Our acquisition of 100% of GEICO caused Davy to incur a large tax. Characteristically, he still warmly supported the transaction.

Davy has been one of my heroes for the 45 years I've known him, and he's never let me down. You should understand that Berkshire would not be where it is today if Davy had not been so generous with his time on a cold Saturday in 1951. I've often thanked him privately, but it is fitting that I use this report to thank him on behalf of Berkshire's shareholders.

- *Source: BRK Letter 1995*
- *URL:*
- *Time: 1995*

back to the questions.

Reasoning behind the Iscar acquisition?

We acquired a large, extremely well managed company called Iscar. Last October, I'd never heard of this company, but then I got a 1 ½ page letter from Eitan [pronounced "Ay-tohn"] Wertheimer. Sometimes I get a letter and a person's character and intellect jump off the page at me. So I met Eitan and his top managers in Omaha. They subsequently met Charlie. This all came to fruition yesterday when we signed the deal. [Click here to read the press release.]

As hard as this is to believe, Charlie is as enthusiastic about this as I am.

[CM: This company rose from very modest beginnings to be the best company in its field in the world. It's not the largest, but that leaves them something to do. [Laughter] The quality of the people in this company is off the chart – and they're young. This is a real quality enterprise and we can learn a lot from them. [According to a friend, at another venue Charlie said that a person like Eitan Wertheimer comes along "every 200-300 million people."]]

I'd like Eitan and his two managers to stand up. Jacob Harpaz is President and CEO. Danny Goldman is CFO. Take a good look at these people – they're going to do very, very well for you.

Eitan Wertheimer: It's a beautiful day in Omaha. We bring our family to a new home. I bring more than 5,000 people here, and their families. For years, we weren't sure what to do [in terms of monetizing our ownership of Iscar]. Then someone came to me and said, "Have you heard of Berkshire?" We found that Berkshire, like us, is a family company with a strong culture. And Berkshire is run by young people who we'd like to work with for 20-25 years. [Laughter] We had a very interesting lesson from Warren and then Charlie – and we survived! [More laughter]

I represent a big family. We make cutting tools and molds for cars, washing machines, the mold for Coke bottles, etc. I want to thank our customers, not only for buying from us but for trying new things. We try to stay competitive...

This is Jacob. In reality, my job is not to disturb him. Jacob gently fired me many years ago.

The company is 34 years old. We're in 61 countries around the world. We have to fulfill a lot of expectations and work very hard to make sure everyone in this room is glad that we joined the family. Let's be successful and look to the future. Every year, I look forward to coming to Omaha when the fields are green and the days get longer.

[At this point, on the main screen, there was a 10-15 minute movie about Iscar and its many worldwide subsidiaries, products and markets. The company makes all kinds of highly specialized cutting tools that are used in a wide range of industries, including automobiles and aerospace. The movie also touched on the history of the company, which was founded in the mid-1950s by Stef Wertheimer, Eitan's father, who is currently honorary Chairman.]

This is an important acquisition. We paid $4 billion for 80% of the company. It's the first business we've purchased that is based outside the U.S., though many we've purchased have major operations outside the U.S.

I think you'll look back at this in 5 to 10 years as a very significant event in Berkshire's history.

[This was, in effect, a very public wedding: both sides making vows of lifelong love, loyalty and commitment, in front of a vast number of friends, family and witnesses. In addition, the press in Israel has been remarkable. Here's an excerpt from one article:

Prime Minister Ehud Olmert called Eitan Wertheimer last night to congratulate him on the sale. "It's terrific tidings and a great gift to the State of Israel," Olmert said. "We tip our hat to you, personally and in the name of the whole country."

Eitan Wertheimer said selling the company for him is "lighting an economic torch," just as his father Stef lit a torch on Independence Day. According to him, Buffett's expression of faith is an important declaration for the country, "and just as they talked about the Balfour Declaration – now they'll talk about the Buffett Declaration." Olmert will speak with Buffett today. A government source said Olmert was indirectly involved in the deal.

A friend observed this and (correctly) commented:

The huge edge Buffett has built is represented in the phenomenal global celebration of the Iscar acquisition.

Eitan Wertheimer is now a hero and favored son of the state of Israel and, in selling his company to Buffett, he has achieved a phenomenal stature relative to his peers. Selling to Bain Capital would have not gotten anywhere this level of press, nor generated a call from the Prime Minister.

Is this level of instant global recognition worth offering Mr. Buffett a price he can't refuse? You betcha! Watch the global competition to be the next 'Omaha Idol' heat right up!! What an edge!]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Buffett talked about the trip he and Munger made to Israel to visit Iscar and they showed some photos of their visit to Iscar's major plant, which is located only 10 miles or so from the Lebanese border. They were incredibly impressed. Munger commented: "It was a great experience. I have never seen anything as automated as that Iscar operation. I think they view it as a disgrace if any human hand has to do anything.”]

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Q - Chinese tungsten prices are going up — will this have an impact on Iscar’s machine tool production?]

WB: The reason the Iscar plant was built in China was to serve China. It’s growing. It’s nice to be near a raw material, but the geographic plant decision has nothing to do with changes in the price of the product. If you are creating a higher value-added product like Iscar, there may be a three-to-six-month adjustment to raw material prices, but there won’t be substitutes for tungsten as a raw material for cutting tools in the near term. Raw materials do get passed through. In the carpet business, oil-based raw materials are having more trouble passing costs. Over time it will pass through. But we’d be having trouble in that anyway. This candy will reflect sugar and cocoa over time. You can have squeezes here and there, but it’s not a big deal. When I visited the facility in Dalian, I had very high expectations for Iscar and they’ve been exceeded in every way; both financial and human expectations.

CM: I would say that the short answer is that while we don’t like inflation because it is bad for our country and civilization, we will probably make more money over time because there is inflation.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

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Update on NetJets

NetJets has grown rapidly and so far our expenses have grown faster. We have top service, the only worldwide service and the only service with larger planes. I thought we’d have economies of scale, but if anything we've had diseconomies of scale. I could give you reasons, but Rich Santulli knows the business and is addressing it. He works 16 hours a day. There is no one I have greater confidence in to fix this business. High fuel costs are a pass-through but affect the business. I think it'll be profitable before long, but I've been wrong so far.

We have a good business. Nearly everyone who wants a large plane comes to us. We are able to get full price, but expenses got out of control last year. You can hold me accountable for paying a lot of money for the business a number of years ago and we haven't made any money yet.

I looked at Raytheon's annual report and they lost a lot of money in this area, but they're selling their own planes so maybe they don't care.

[CM: The product integrity is so extreme between NetJets [and its competition]. For example, NetJets' pilots are subjected to real oxygen withdrawal so they'll recognize the symptoms. Not everybody does that because it's expensive. They're obsessive about product integrity. My guess is that this will be rewarded eventually.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Q - What errors were committed? What was learned and how do you prevent it from happening again?]

Buffett: I probably won't. Mistakes will be made over time. Sometimes situations are extraordinary. We were buying at fictitious plane prices that were based on how much people thought they could be sold for vs. what we would later sell them for. In the end they were not prepared for what was obviously happening and we had to write down a lot of the planes. They also let operating costs get out of line with revenues. Remember that I stayed in the textiles business for 20 years before I finally woke up. Charlie was telling me it was lousy in year one. It was a big mistake. NetJets last year posted a $711m loss. It is now operating with a decent pretax profit, with well over $50m pretax profit in Q1 and not with any boom in plane sales. They have a new business plan that has no diminution of service or safety but is now more in line with revenues. David Sokol turned the place around like no one could have.

Munger: Yes, but I believe the episode should be reviewed in context. If we buy 30 businesses and let the managers run them without interference, where 95% of the time it works well, then it is not a bad failure record. So, they will not change the management approach at all. They will continue to trust people to manage their own companies. This is how it has worked for years.

Buffett: This doesn't change our management strategy. We let managers do their stuff. And we will keep doing it.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

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What was the thinking behind the McLane purchase?

Yesterday we announced a deal to buy McLane from Wal-Mart. Wal-Mart announced that the price for the two deals it did -- one was a small trucking company -- was $1.5 billion. [It's been reported that the purchase price McLane was $1.45 billion.] McLane is a wholesaler to convenience stores, quick-serve restaurants, Wal-Mart, movie theaters and so forth. It will have about $22 billion in revenues this year. Wal-Mart had owned it since 1990 and it grew substantially while they owned it. It is run by a terrific manager, Grady Rosier, and under his leadership, it grew from $3 billion to $22 billion.

Wal-Mart, for very good reasons, wants to specialize on what they do extremely well. We were approached by Goldman Sachs to buy the business a week ago. It makes sense for both sides. It was a sideline business for Wal-Mart. Their ownership of McLane resulted in certain people who would be logical customers not to do business with McLane because they didn't want to do business with a competitor. We'll be seeing them soon to explain that they can sleep well at night buying from us.

A representative of Wal-Mart, the CFO, came up to Omaha last Thursday. In one hour, we had a deal and shook hands, and when you shake hands with Wal-Mart, the deal is done. There needs to be regulatory review, but we fully expect that in just a few weeks, McLane will become part of Berkshire.

It serves presently 36,000 of the 125,000 convenience stores in the United States, and has 58% share among the largest chains. To each store, it sells about $300,000 of products/year. McLane also serves 18,000 quick-serve restaurants, mainly those operated by YUM Brands (Taco Bell, Pizza Hut and KFC).

It's a tough business. You have Hershey and Mars on one side and 7-11 Eleven on the other side, so you have to work hard to earn 1% pretax. [Tilson - If McLane earns 1% pre-tax on $22 billion in sales, that's $220 million, so Buffett may have bought this business for 6.6x pre-tax earnings. I think this is a good price, especially if the business can grow substantially under Berkshire, but not a steal -- the guys at Wal-Mart aren't fools. But I think they let it go for a below-market price to Buffett because their biggest concern is that the business continue to be a reliable supplier to their stores. Such a low-margin business has little room for error, and it could get into trouble (as other similar companies have) under the ownership of a financial buyer that used too much leverage or tried to tinker with its operations.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

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How did the Clayton Homes purchase come about?

Clayton Homes is the class of the manufactured home industry. The deal came about in an unusual way. Every year, a class (about 40 students) from the University of Tennessee comes to Omaha. They visit some sights and then we a have classroom session for a couple of hours. Afterward, they typically give me a football or basketball. Last year, Bill Gates happened to be in town. This year, we had a good session and when they got through, they gave me a book, the autobiography of Jim Clayton, the founder of Clayton Homes. He'd written a nice inscription. I said to the students that I was an admirer of Jim's. I read the book and called Kevin Clayton, Jim's son, and said how much I'd enjoyed his dad's book. I said if they ever decided to do anything [regarding selling the company], we'd be interested and I told him what price I'd be willing to pay. A few phone calls later, we had a deal. That's the way things tend to happen at Berkshire.

The manufactured home industry got in a lot of trouble. They'd gone crazy with credit and when you go crazy with credit, you get into a lot of trouble. Look at Conseco and Oakwood, which went into bankruptcy. The industry lost the ability to securitize receivables and was in the tank. There were 160,000 new manufactured homes this year, but there were 90,000 repossessions, so this hurts demand. For the strong, like Clayton, especially with a backer like Berkshire, it should be a good time in the industry. And it's a big industry -- about 20% of new homes are manufactured. We can put you in one for $30/square foot. Compare the prices -- that's a deal.

Competitors admit that Clayton is the class of the field, but even for Clayton, financing was hard. The lenders had gotten burned. Clayton did a securitization earlier this year, but [to get the deal done, they] had to keep more of the risk on their books

[Later in the meeting, in response to a question, Buffett commented further on Clayton Homes:] In the manufactured housing industry, everyone is losing money, but Clayton is making money. Most of Clayton's houses are sold through 297 outlets that they own. Managers are in a 50/50 profit split with Clayton. This is unlike what was going on in the industry a few years ago, whereby dealers would have a floor plan and the [manufactured housing] company would finance 130% of the purchase price, so the dealer would bring in any warm body. The system was designed for disaster. At Clayton, if a dealer takes in an inadequate down payments, it's his problem and he has to take care of repossessing it. This creates the right incentives.

If you read Jim Clayton's book [First A Dream], he tells about the first home he sold [when working for someone else] and all of the funny business and gaming of the financing. These activities are coming home to roost in a huge way among the manufacturers and those who financed them. There's such a stain that Clayton is only one that can securitize, and without us, not to the extent they wanted. They are a class player and have the right systems in place with the right incentives. We will not securitize -- we will keep it for the portfolio.

You're right [he was speaking to the questioner] that if you see companies with lots of gains on sales, be suspicious.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[The manufactured-home industry has] an interesting history. There have been years in which manufactured housing accounted for 20% of the new housing stock built in this country, but it's now at the lowest level it's been in 40 years. It's fallen to 6-7% of new housing starts in the past few years, despite considerably better quality – you can look at the two [Clayton Homes] houses on the exhibition floor [of the Qwest Center]. They cost only $45 per square foot. That's good value.

There's been resistance by local builders to manufactured housing, but we've made progress. They're now building subdivisions [for manufactured housing].

[For quite some time until the crash in this industry a few years ago,] the houses were mis-sold. The retailers were selling the houses to people who shouldn't have been buying them, getting the down payment, and then taking the loans and selling them to some insurance company who lost a lot of money. [The subsequent crash] created a hangover that's still being worked through.

[Mortgages on manufactured homes] should be financed on shorter terms. Terms of 30 years are a mistake. The terms got very lax and we're bearing the consequences.

Somewhere down the road there will be 200,000 units [of manufactured housing sold], but not in the next year or two.

The number of competitors is down. Clayton's record is so much better than anyone else's that you have to look hard for the #2 player. Clayton may become biggest homebuilder in the U.S.

[CM: I think [the quality of] manufactured housing will continue to get a lot better and these types of homes will take more of the market. It's so logical that I think it will happen.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

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Thinking behind the investment in Anheuser-Busch?

Most of the time, our actual decision [to buy] takes about two seconds. In the case of Anheuser- Busch, I bought 100 shares 25 years ago so that I would get the annual reports (you get the annual reports a little quicker if you own the stock in your own name). So, I've been reading the company's annual reports for 25 years. Recently, beer sales have been flat. Wine and spirits are growing, at the expense of beer, and Miller has been rejuvenated to some degree. So, Anheuser-Busch has been experiencing very flat earnings; they've had to spend more to maintain share and even do a bit of promotional pricing. They are going through a period that is certainly less fun for them than was the case a few years ago.

It's been a fascinating industry over the past 50 years. Omaha used to be a brewing town and Storz beer had 50% of the local market, but then the national brands took over.

Anheuser-Busch will have a strong position for a long time. The beer business is not going to grow significantly in the U.S., but worldwide beer is popular in a great many places, and Anheuser-Busch has a very strong position. I would not expect the earnings to do much for some time, but that's fine with us.

[CM: In our situation, it's rare that we can buy into a good company – we almost need a little unpleasantness.]

That's true for Berkshire too.

In beer, you don't see the rise of generic brands, as we've seen in so many other categories. But beer consumption per capita is going nowhere.

Americans drink about 64 ounces of liquid per day. 27% of that is soda (11 ounces are Coke products), beer is about 10% and, despite the rise of Starbucks, a fine company, coffee has gone down and down over time.

[CM: There used to be hundreds of brewers. I think the trend toward giant companies [dominating the beer industry] is permanent.]

Schlitz used to be the #1 brand of beer.

There's a great book on the history of the beer industry [he didn't give the title, though mentioned it was written by a Wall Street Journal reporter. Most likely it is Travels with Barley: A Journey Through Beer Culture in America, by Ken Wells.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

Could you talk us through your thinking of the acquisition of Larson-Juhl?

[On December 17, 2001, Berkshire Hathaway announced that it was acquiring Albecca (known as Larson-Juhl), the nation's leading provider of custom picture frames. Buffett was asked to talk about this business (these comments are from the annual meeting, plus those made at another presentation):]

Craig Ponzio, the owner of Larson-Juhl called me, told me about his business, its sustainable competitive advantages, its financial characteristics, and the price he wanted. Shortly thereafter, he came to visit me at 9am and by 10:30 we had a deal. I haven't seen him since.

The company has $300 million in revenues, earns $50 million in pre-tax profits, ties up no capital, is growing slowly, and distributes every dime of profit.

There are about 18,000 picture framing shops in the United States, mostly very small businesses with a few hundred thousand dollars per year in sales. They can't afford to have much inventory, so they show a catalogue to a customer who chooses the frame. Then, if they call Larson-Juhl before 3pm, 85% of the time the frame will be there the next day. Larson-Juhl and its customers are focused on service, not price.

Larson-Juhl calls on its 18,000 customers an average of five times/year. It has an incredible distribution system. Tell me how you'd attack that business? You wouldn't want to anyway, as the market's not big enough. Larson-Juhl has a HUGE moat. I always ask myself how much it would cost to compete effectively with a business. With businesses like these, nothing's going to go wrong. If you bought 20 of them, 19 of them would work out well.

Craig wanted to sell to me because he didn't want to waste a year doing a deal that might fall through at the end. With us, it's 100% certain that the deal gets done, and he can enjoy life.

The only thing that's unfortunate is that it's a small business.

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

back to the questions.

BYD [Buffett's recent Chinese investment] seems like a speculative or venture capital investment, instead of a "value" investment. Could Buffett explain?

Buffett: All investments are "value" investments. What other kind can there be? You always expect to get more in the future [for what you're investing today].

Munger: BYD is not some early-stage venture capital company. The founder is around 43 years old. They're a main manufacturer of rechargeable lithium batteries, from a standing start. Then they became big in cell phone components, with a huge position. They recently entered the auto industry, and from zero, rapidly made the best-selling [Chinese-manufactured] car model in China, against Chinese joint ventures with leading manufacturers. This is not unproven. It's not speculative. It's a damn miracle. They hired 17,000 engineering graduates at the top of their classes. It's a remarkable aggregation of talent. Chinese people succeed mightily. Batteries are totally needed in the future of the world. I don't think Warren and I have gone crazy. They make every part in the car, except [possibly] the windshield and the tires. I regard it as a privilege for Berkshire to be associated with BYD. I will be amazed if great things don't happen. I wouldn't bet against 17,000 Chinese engineers led by Wang Chuan-Fu. BYD is a $4 billion company—a small company, but their ambition is large.

Buffett: BYD was Charlie's [idea], the Irish banks were mine.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

[Q - BYD. How do you analyze a technology company like this when for so many years you shied away from investing in tech companies?]

Buffett: Deferred to Charlie

Munger: BYD is an interesting example because 5-10 yrs earlier BRK would not have made the investment. The old men are continuing to learn. Berkshire would have lower potential if we had stayed the way we were. I wasn't sure I could get Warren to do this. Dave Sokol was inveigled to go to China and the both of us helped the Chairman with the 'learning' process.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Why did you invest in Harley-Davidson?

I like the 15%. I measured that 15% against other credits and it looked attractive on both a relative basis and an absolute basis. Also, we have to have a certain amount of the portfolio go to debt. Lately, the government has become the guarantor for some companies but not for others and the "haves" and "have-nots" determined by certainty of government assistance rather than the credit quality. These finance companies have a problem getting funded, not with their customers. Any company where you can get your customers to tattoo your name on their body has quite a strong brand. For this investment I had to think what is the probability that they will not pay me back and would I want to own the company if they did not, basically that the equity isn't worth zero. Risk premiums in the corporate bond market went from real low to real high. Right now, they're out of whack. The flip side is that governments are overpriced. We have a bubble in governments. T-bills actually had a negative interest rate. I never thought I'd see that. A mattress is a better investment than the US 10 Year. Buying corporates and shorting the 10-year is a great idea and smart guys went broke doing it because even if you're right, you need to be able to play out your hand. I always think about what I would do if a nuclear bomb went off or if Bernanke ran off with Paris Hilton to South America.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

Opinion of Fannie Mae and Freddie Mac? (2001)

[In 2000, Berkshire Hathaway sold its large, long-term holding in Freddie Mac.] "We felt uncomfortable with certain aspects of the business as they developed, though they may not hurt the company. We did not sell because we were worried about more governmental regulation -- the opposite if anything. We felt the risk profile had changed."

Munger added, "Maybe it's unique to us, but we're quite sensitive to financial risks."

Buffett continued, "There are many things you don't know by looking at a financial company's financial statements. We've seen enough to be wary. We can't be 100% sure that we like what's going on. With some types of companies, you can spot problems early, but you spot troubles in financial institutions late."

Munger: "Financial institutions make us nervous when they're trying to do well." [Think about that one for a while.]

At another point in the meeting, after a question about the underwriting risks in Berkshire Hathaway's portfolio, Buffett said, "the biggest risks are [assumed by] those who write lots of homeowner's policies. If you're Freddie Mac or Fannie Mae, guaranteeing mortgages for millions of people, what happens if an earthquake hits California? They're taking on enormous risk. I don't know if Freddie Mac and Fannie Mae are demanding that all homes with mortgages they guarantee have earthquake insurance." [That's Buffett's polite way of saying they don't.]

- *Source: BRK Annual Meeting 2001 Tilson Notes*
- *URL:*
- *Time: April 2001*

back to the questions.

Opinion on Fannie Mae, Freddie Mac and Other Highly Leveraged Financial Institutions? (2003)

I have a lot of respect for Frank Raines [the CEO of Fannie Mae]. I think he's done a good job at Fannie Mae. The problem with Fannie Mae, Freddie Mac and the S&Ls in the past -- they have a terrible problem of matching assets and liabilities. The problem is the optionality of mortgage interest. You have a 30-year instrument [e.g., a fixed-rate home mortgage] if you [the homeowner] have a good deal and a 30-minute deal if it's a bad one [e.g., interest rates fall further]. The public has been educated and will refinance. It's a big problem when you are operating on borrowed money in a very big way. If you run an institution that is highly leveraged, you'll look for one way or another to try to match liabilities as close as you can with the duration of assets. And you try to deal with the optionality of your counterparty. It's not easy to do. Fannie and Freddie try to mitigate this risk through various ways, and do a good job -- probably better than we could. But it's not perfect. I'd try to reduce this optionality and would be careful of counterparty risk.

The things that really destroy people are 5- or 6-sigma events -- things that really aren't supposed to happen. Financial markets don't do every well at modeling this. It works until it doesn't. There are more theoretical 6-sigma events than any theory of probabilities will come up with. When you have gaps, markets close, etc., this is what causes companies to go out of business. Derivatives increase the chance of this happening and magnify the damage if it does.

If anyone uses precise figures in finance, be careful.

When Long-Term Capital Management had trouble with one type of asset, they had troubles with other types of assets -- and everyone else did too. The Fed stepped in -- something they never dreamed they would have to do -- because it threatened stability of the US financial system.

[CM: I agree with [Warren's points about] counterparty risk. I think Fannie and Freddie have been thinking about a lot of scenarios where they'll be okay if the counterparties pay. But I'll bet they weigh the risk of counterparties not paying a lot lower than I would.]

I'll bet Fannie and Freddie are handling this better than their counterparties, such as the financial guarantors.

The best thing you can do is count on your own resources. That's what we do at Berkshire. Charlie and I are rich enough that we don't need to stay up at night.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

The GSEs were a very logical development. For a fee, which used to average 25 basis points, they would allow someone 3,000 miles away to buy a mortgage [or portfolio of mortgages] and not worry. The GSEs were looked at as government guaranteed, so investors didn’t worry.

They became all about leverage – they could access capital at a low rate and built a huge carry trade [borrow at low short-term rates and lend at higher long-term rates]. Then they got carried away when they promised high rates of steady growth. It was madness – you can’t do that. If you lend for 30 years to someone who can repay in 30 seconds, as a practical matter you can’t perfectly handle that risk. So, they first enlarged their portfolios and then engaged in financial shenanigans.

It boggles the mind how, with good auditors and board members, they misrepresented billions of dollars. They now have $1.5 trillion of mortgages and the Federal government is on the hook – markets believe it and it is – because two companies wanted earnings per share to go up. They acted like the two largest hedge funds in history.

People are now seeing the consequences of the government issuing a guarantee. Congress should be paying a lot of attention to this. You can't shut them down, but you can increase capital requirements and capital ratios. You could put them into run-off mode. There are plenty of other mortgage guarantee providers. It would not be the end of the world at all if the GSEs were put into run-off mode.

[CM: I think their problems are due in part to their large derivatives books, which were sold to them by silver-tongued salesman. As many of you know, I believe there's much wrong with derivative accounting and don't believe the full penalties have yet been paid.]

If you can have a $5 billion mismark in one direction and a $9 billion mismark in the other direction [as was the case with Freddie and Fannie, respectively], I would say we've come a long way from Jimmy Stewart in "It's a Wonderful Life".

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

How did you decide to invest in Salomon?

Salomon like I said, I went into that because it was a 9% security in 1987 in September 1987 and the Dow was up 35% and we sold a lot of stuff. And I had a lot of money around and it looked to me like we would never get to do anything, so I took an attractive security form in a business I would never buy the common stock of. I went in because of that and I think generally it is a mistake. It worked out OK finally on that. But it is not what I should have been doing. I either should have waited in which case I could have bought more Coca-Cola a year later or thereabouts or I should have even bought Coke at the prices it was selling at even though it was selling at a pretty good price at the time. So that was a mistake.

On Long-Term Capital that is—we have owned other businesses associated with securities over the years-–One of them is arbitrage. I've done arbitrage for 45 years and Graham did it for 30 years before that. That is a business unfortunately I have to be near a phone for. I have to really run it (arbitrage operations) out of the office myself, because it requires being more market-attuned because I don't want to do that anymore. So unless a really big arbitrage situation came along that I understood, I won't be doing much of that. But I've probably participated in about 300 arbitrage situations at least in my life maybe more. It was a good business, a perfectly good business.

LTCM has a bunch of positions, they have tons of positions, but the top ten are probably 90% of the money that is at risk, and I know something about those ten positions. I don't know everything about them by a long shot, but I know enough that I would feel OK at a big discount going in and we had the staying power to hold it out. We might lose money on something on that, but the odds are with us. That is a game that I understand. There are few other positions we have that are not that big because they can't get that big. But they could involve yield curve relationships or on the run/off the run governments that are just things you learn over time being around securities markets. They are not the base of our business. Probably on average, they have accounted for ½ - ¾ a percentage point of our return a year. They are little pluses you get for actually having been around a long time.

One of the first arbitrages I did involved a company that offered cocoa beans in exchange for their stock. That was in 1955. I bought the stock, turned in the stock, got warehouse certificates for cocoa beans and they happen to be a different type but there was a basis differential and I sold them. That was something I was around at the time, so I learned about it. There hasn't been a cocoa deal since. 40 odd years, I have been waiting for a cocoa deal. I haven't seen it. It is there in my memory if it ever comes along. LTCM is that on a big scale.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

Is it true that Salomon almost caused a global financial crisis?

It's hard to tell what will cause a crisis: who will yell fire, how many people will rush to the exits, etc.

Look at Long-Term Capital Management, or what happened to the junk-bond market in 2002. It almost closed. It was chaos.

In mid-August 1991, when we were at Salomon, on a Sunday we were within half an hour of seeking out a Federal judge and handing over the keys and filing for bankruptcy. The lawyers were drafting the bankruptcy documents. Fortunately, [the Treasury ruling that would have forced Salomon to seek bankruptcy protection] was reversed.

But what would have happened if we'd filed? Coincidentally, Gorbachev was spirited away the same day [Monday, August 19] and the Dow was down a few hundred points. What would have happened when the markets opened in Japan if Salomon Japan couldn't deliver securities, etc.? Plus, Salomon had a $600-700 billion derivative book.

Munger: It could have been absolute chaos. There's a very interesting story, with an interesting moral. Nick Brady was Treasury Secretary at the time. He was a Berkshire shareholder because of his long relationship with the Chaces.

[From Buffett's 1991 annual letter: "Malcolm G. Chace, Jr., now 88, has decided not to stand for election as a director this year. But the association of the Chace family with Berkshire will not end: Malcolm III (Kim), Malcolm's son, will be nominated to replace him. In 1931, Malcolm went to work for Berkshire Fine Spinning Associates, which merged with Hathaway Manufacturing Co. in 1955 to form our present company. Two years later, Malcolm became Berkshire Hathaway's Chairman, a position he held as well in early 1965 when he made it possible for Buffett Partnership, Ltd. to buy a key block of Berkshire stock owned by some of his relatives. This purchase gave our partnership effective control of the company. Malcolm's immediate family meanwhile kept its Berkshire stock and for the last 27 years has had the second-largest holding in the company, trailing only the Buffett family. Malcolm has been a joy to work with and we are delighted that the long-running relationship between the

Chace family and Berkshire is continuing to a new generation."]

Munger: He [Nicholas Brady] knew about us and was following the story. He trusted you, Warren, and I think that mattered.

It was terrifying what could have happened that day.

Buffett: Kim Chace, who I introduced you to earlier [at the beginning of the meeting, Buffett introduced all of Berkshire's directors], his father introduced me to Nick Brady when I was in my 30s. [In 1991,] he was head of the Treasury and they had issued a death sentence to us [Salomon] that morning. Fortunately Nick reversed it. [Had he not, we would have filed for bankruptcy and] it would have been a case study for a daisy-chain type of panic.

That was nothing compared to what would happen now. It's not an experiment that you would want to voluntarily conduct, let's put it that way. [Nervous laughter]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

You were rumored to be one of the rescue buyers of Long Term Capital, what was the play there, what did you see?

The Fortune Magazine that has Rupert Murdoch on the cover. It tells the whole story of our involvement; it is kind of an interesting story. I got the really serious call about LTCM on a Friday afternoon that things were getting serious. I know those people most of them pretty well--most of them at Salomon when I was there. And the place was imploding and the FED was sending people up that weekend. Between that Friday and the following Wed. when the NY Fed, in effect, orchestrated a rescue effort but without any Federal money involved. I was quite active but I was having a terrible time reaching anybody.

We put in a bid on Wednesday morning. I talked to Bill McDonough at the NY Fed. We made a bid for 250 million for the net assets but we would have put in 3 and 3/4 billion on top of that. $3 billion from Berkshire, $700 mil. from AIG and $300 million. from Goldman Sachs. And we submitted that but we put a very short time limit on that because when you are bidding on 100 billion worth of securities that are moving around, you don't want to leave a fixed price bid out there for very long.

In the end the bankers made the deal, but it was an interesting period. The whole LTCM is really fascinating because if you take Larry Hillenbrand, Eric Rosenfeld, John Meriwether and the two Nobel prize winners. If you take the 16 of them, they have about as high an IQ as any 16 people working together in one business in the country, including Microsoft. An incredible amount of intellect in one room. Now you combine that with the fact that those people had extensive experience in the field they were operating in. These were not a bunch of guys who had made their money selling men's clothing and all of a sudden went into the securities business. They had in aggregate, the 16, had 300 or 400 years of experience doing exactly what they were doing and then you throw in the third factor that most of them had most of their very substantial net worth's in the businesses. Hundreds and hundreds of millions of their own money up (at risk), super high intellect and working in a field that they knew. Essentially they went broke. That to me is absolutely fascinating.

If I ever write a book it will be called, Why Smart People Do Dumb Things. My partner says it should be autobiographical. But this might be an interesting illustration. They are perfectly decent guys. I respect them and they helped me out when I had problems at Salomon. They are not bad people at all.

But to make money they didn't have and didn't need, they risked what they did have and what they did need. That is just plain foolish; it doesn't matter what your IQ is. If you risk something that is important to you for something that is unimportant to you it just doesn't make sense. I don't care if the odds you succeed are 99 to 1 or 1000 to 1 that you succeed. If you hand me a gun with a million chambers with one bullet in a chamber and put it up to your temple and I am paid to pull the trigger, it doesn't matter how much I would be paid. I would not pull the trigger. You can name any sum you want, but it doesn't do anything for me on the upside and I think the downside is fairly clear. Yet people do it financially very much without thinking.

There was a lousy book with a great title written by Walter Gutman—You Only Have to Get Rich Once. Now that seems pretty fundamental. If you have $100 million at the beginning of the year and you will make 10% if you are unleveraged and 20% if you are leveraged 99 times out of a 100, what difference if at the end of the year, you have $110 million or $120 million? It makes no difference. If you die at the end of the year, the guy who makes up the story may make a typo, he may have said 110 even though you had a 120. You have gained nothing at all. It makes absolutely no difference. It makes nodifference to your family or anybody else.

The downside, especially if you are managing other people's money, is not only losing all your money, but it is disgrace, humiliation and facing friends whose money you have lost. Yet 16 guys with very high IQs entered into that game. I think it is madness. It is produced by an over reliance to some extent on things. Those guys would tell me back at Salomon; a six Sigma event wouldn't touch us. But they were wrong. History does not tell you of future things happening. They had a great reliance on mathematics. They thought that the Beta of the stock told you something about the risk of the stock. It doesn't tell you a damn thing about the risk of the stock in my view.

Sigma's do not tell you about the risk of going broke in my view and maybe now in their view too. But I don't like to use them as an example. The same thing in a different way could happen to any of us, where we really have a blind spot about something that is crucial, because we know a whole lot of something else. It is like Henry Kauffman said, "The ones who are going broke in this situation are of two types, the ones who know nothing and the ones who know everything." It is sad in a way.

I urge you. We basically never borrow money. I never borrowed money even when I had $10,000 basically, what difference did it make. I was having fun as I went along it didn't matter whether I had $10,000 or $100,000 or $1,000,000 unless I had a medical emergency come along.

I was going to do the same things when I had a little bit of money as when I had a lot of money. If you think of the difference between me and you, we wear the same clothes basically (SunTrust gives me mine), we eat similar food—we all go to McDonald's or better yet, Dairy Queen, and we live in a house that is warm in winter and cool in summer. We watch the Nebraska (football) game on big screen TV. You see it the same way I see it. We do everything the same—our lives are not that different. The only thing we do is we travel differently. What can I do that you can't do?

I get to work in a job that I love, but I have always worked at a job that I loved. I loved it just as much when I thought it was a big deal to make $1,000. I urge you to work in jobs that you love. I think you are out of your mind if you keep taking jobs that you don't like because you think it will look good on your resume. I was with a fellow at Harvard the other day who was taking me over to talk. He was 28 and he was telling me all that he had done in life, which was terrific. And then I said, "What will you do next?" "Well," he said, "Maybe after I get my MBA I will go to work for a consulting firm because it will look good on my resume." I said, "Look, you are 28 and you have been doing all these things, you have a resume 10 times than anybody I have ever seen. Isn't that a little like saving up sex for your old age?

There comes a time when you ought to start doing what you want. Take a job that you love. You will jump out of bed in the morning. When I first got out of Columbia Business School, I wanted to go to work for Graham immediately for nothing. He thought I was over-priced. But I kept pestering him. I sold securities for three years and I kept writing him and finally I went to work for him for a couple of years. It was a great experience. But I always worked in a job that I loved doing. You really should take a job that if you were independently wealthy that would be the job you would take. You will learn something, you will be excited about, and you will jump out of bed. You can't miss. You may try something else later on, but you will get way more out of it and I don't care what the starting salary is.

When you get out of here take a job you love, not a job you think will look good on your resume. You ought to find something you like.

If you think you will be happier getting 2x instead of 1x, you are probably making a mistake. You will get in trouble if you think making 10x or 20x will make you happier because then you will borrow money when you shouldn't or cut corners on things. It just doesn't make sense and you won't like it when you look back.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

I cannot buy See's Candies in Bonn Germany. See's Candies vs. Lindt. Sees' has a 20% profit margin; their growth is okay. Lindt does 14%, but is now global. Which is better, high profits with low growth, or high growth with lower profits?

WB: It doesn't make any difference. We want a company with a durable advantage, which we can understand, a management we can trust, at a good price. We've looked at every confectionary business. We can sometimes take action. If you have a good private business, the best thing to do is to keep it. No reason to sell it. If you don't need the billion, then it's just a farm. We never urge people to sell good businesses, but if they do need to sell, they can keep more of the attributes they love by selling to Berkshire. We are a larger buyer. Most people shouldn't sell us their business, but we want them to think of us if they do decide to sell. We want to be on the radar screen. We are going to get more on the radar screen in Europe. There is a price at which we would buy stock in Lindt, but it is unlikely to sell there. Many CEOs want to sell to me, but there are thousands of businesses in the world. We should buy the most attractive amongst the ones we understand and like. Stocks give you bargains, but individual owners won't. But we will do it at a fair price. We aren't going to look for a given confectionary company.

CM: We don't do anything when the phrase 'regardless of price' enters the equation. I watched a man who sold a business to a known crook just for a higher price, but who you knew would ruin the business. It's better to sell companies you created to someone who would be a good steward at a lower price.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Could you give a post-mortem on the Gen Re acquisition?

Buffett: We believe in post mortems, but not in making them public. You won't attract businesses if you do. Charlie is a fan of rubbing their noses in what they've done. I will comment on Gen Re though. Gen Re has worked out well after a terrible, terrible start thanks to the combined work of Tad [Montross] and Joe [Brandon] who took over in 2001. I was terribly wrong in thinking it was the Gen Re of 15 years earlier. Gen Re now is the company I thought it was in 1998 when I bought it. It wasn't an easy job.

Munger: That's right. It's very important that you have the ability to turn lemons into lemonade. It wasn't pleasant, and it wasn't pretty. You had to be very tough minded to fix Gen Re. We were very lucky to have Tad and Joe.

Buffett: Post mortems are evaluating our handiwork. Acquisitions are our choices— not another department or a consultant. We made some really dumb decisions.

Munger: Joe's the hero.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

General Electric and Goldman Sachs: GE has a history of trying to manage earnings. Do you regard GE and Goldman as attractive businesses or attractive securities?

Buffett: A very substantial fraction of American businesses over the last 15 years have managed earnings. We felt good about the quality of the businesses and the quality of the managements, but it was primarily the terms of the GE and Goldman deals that made them attractive. There were no second sources to GE and Goldman. I know the GE and Goldman CEOs quite well and am very happy with the deals. We've done a lot of business with Goldman over the years.

Munger: There's been a lot of criticism of investment banking, but Berkshire has gotten help [from] investment banks. We're comfortable with these businesses.

Buffett: We've bought I don't know how many wind turbines from GE.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Swiss Re - I'd like to know about its float and risks. How can you be comfortable with the situation?

Buffett: We have several arrangements with Swiss Re. We invested three billion Swiss francs [$2.6 billion] in Swiss Re, and it pays us 12%. [This is] not a junior security. Their problems are not due to their [insurance] underwriting. They develop a large amount of float relative to premiums. Swiss Re's problems were a little akin to AIG's.

Munger: If Swiss Re's a problem, we should have more [like that].

[Comment: They say a stressful situation that doesn't kill you, makes you stronger. Somewhat similarly, a company's problems that prove not to be fatal can make its investment case stronger—at a sufficiently low price. Obviously, Buffett didn't view Swiss Re's problems as being a lot like AIG's.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Goldman Sachs - Every year you use clip from Solomon Crisis where you warned Solomon's employees that you will be ruthless if reputation if the firm stained. Clearly GS has lost reputation. What is your reaction to the lawsuit, its affect on your GS investment, and what advice you have now for GS based on your experience at Solomon?

WB: Abacus was made subject of SEC complaint (22pages) and I think there has been misreporting on the nature of the transaction. I would like to clarify this transaction, as it is important and frequently mischaracterized. In the Abacus transaction, there were four losers. GS didn't intend to lose but did, they couldn't sell their piece. The main loser was a very large bank in Europe named ABN Amro. Why did they lose money? They guaranteed the credit of another company ACA. ABN was in the business of judging credits, deciding credit. They fronted the transaction, guaranteed it. We do it frequently here at Berkshire. Many in business will take a policy if we guarantee the policy. We've made a lot of money doing this over the years. We lost a fair amount doing this with some dishonest people in early 1970s. They were syndicates at Lloyds. In Abacus, ABN guaranteed $900m and was paid 17bps of insurance. They got $1.6m for $900m of insurance coverage. The company went broke, so they had to pay the $900m. The bank made a dumb credit deal. It is hard for me to be sympathetic for a bank that made a bad credit trade. ACA, and you wouldn't know this from the reporting, but they were a bond insurer. They started in municipal bonds, like AMBAC, FSA, etc. Many of those companies started insuring municipal bonds some 30 yrs ago, and it was a big business. But the profits were squeezed. They found new places to insure – and got into insuring structured credits. I described it a few years ago in the annual report like Mae West, "I was Snow White but I drifted". Almost all of them did it – they didn't understand it well, but made more money. Then they all got into trouble. Is there anything wrong with insuring structured credits? No, but you better know what you are doing. We went into municipal bond business when others got into trouble, we got paid more, and we stayed away from CDOs or RMBS. These deals were too hard.

WB: We did insure something. It will help you understand Abacus. This deal [slide up on screen of portfolio of US state bonds] we did insure. A large investment bank came to us. We insure a local power generation company, and the Nebraska Methodist hospital. We have $100m with the hospital. An investment bank came to us, with this list of names of states -- $1.1b for Florida, $200m for California. Will you insure the bonds of these States that they will pay for the next ten years. I looked at list, and we had to decide a) do we know enough and b) what premium to charge. We insured $160m for 10yrs. On other side, someone is insured that we will pay if they don't pay. We didn't come up with list. There are four reasons we were showed this trade. Lehman might own it and simply want insurance, Lehman might be negative on it – and this is a method to short, they might have a customer wanting protection, or they might have a customer negative on it wanting to short. We don't care why they wanted the insurance, it was our job to insure the bonds. If they told me Ben Bernanke was on other side of trade, it wouldn't matter. If it matters to me, I shouldn't take it. We did with the bonds what ACA did. With list of 120, ACA only accepted 50, then negotiated for 30 more. In Abacus it was a mutual negotiation. Unfortunately, all the bonds went south very quickly – it wasn't clear this would happen in early 2007. If you look at how the ABX was trading, it wasn't obvious. Now there can be trouble in these States bonds we have insured. Maybe the guy on other side knows more than me. But I see nothing, I won't complain if I lose money. I can't claim other side had superior knowledge. Central part of the SEC argument is that Paulson knew more about the transaction. In retrospect, it was just a dumb insurance decision. Charlie?

CM: My attitude is simple. This was a 3:2 decision by SEC commissioners where they usually decide unanimously. I would have voted with the minority.

WB: ACA was a bond insurer, not an investor, pure and simple. Well... simple as it turns out. The press seems to be misrepresenting the situation by calling ACA a manager. ACA lost money because they were a bond insurer. Ironically, this whole situation has helped BRK's investment in GS. BRK got $5B in preferred stock (that pays $500M per year) that GS has the right to call at 110% of par and get rid of the preferred that costs them so much each year. BRK would have to put that money in ST securities if they got it back and every day that GS does not call the stock is money in the bank for BRK. In fact, it amounts to $15 per second. Tick, tick, tick. Don't want those ticks to go away. He likes that they go on at night when he sleeps. GS would love to get rid of the preferred. They only decided to do it because it was the height of the crisis. The Fed has likely been telling GS that they can't call the preferred and that has helped BRK. Buffett was hoping that the Fed would be quite tough when it came to allowing the preferred to be repaid. In effect, the recent developments have delayed the calling of the preferred. Now BRK will get $500M a year rather than $20M a year they would get from ST Treasuries. So Buffett loves the investment in GS. There is no question that the allegation alone caused the company to lose some reputation and all the negative press has hurt the company and morale. But this is not remotely fatal or anything like that. GS had a situation with Penn Central 30 years ago and one with Ivan Boesky that hurt. But the allegation of something does not fall into the category of losing reputation. When a transgression is found out about or alleged (His motto in such situations is: get it right, get it out, get it fast, get it over) it can take a while to figure out what went wrong. He does not hold the allegation against GS. If it leads to something more serious then he will re-look at it. But, when he looks at Abacus he sees it as a legitimate transaction.

[Q - And the latter half of the question, regarding your investment in GS and your advice to management?]

WB: It has probably helped our investment. We have $5bn in preferred stock at 10% (that pays $500M per year). They can call them at 110% of par and get rid of the preferred that costs them so much each year. BRK would have to put that money in short term securities (which might make $20m versus the $500m per year we now own) if they got it back and every day that GS does not call the stock is money in the bank for BRK. Every day, we get paid $15 per second. I don't want those ticks to go away. Tick tick tick. They go on at night, and on weekends. I love this, I get paid when I sleep. Tick tick tick. They only agreed to this at the height of crisis, and they want them to go away. The government has been telling companies what to do about dividends and preferred shares. Government telling them what to do, and it is good for our shareholders! I was sitting here hoping that the Fed would continue to be quite tough about our preferred. I think recent developments have delayed the calling of our preferred. So we'll continue to get $500m per year instead of $20m.

We love the investment. I would expect – there is no question that the allegation alone causes the company to lose reputation and obviously the press has hurt the company, and morale. It isn't mortal, but it hurts. GS had a situation with Penn Central railroad -- that hurt forty years ago. There was a Boesky connection – it was painful at the time. But an allegation of something doesn't fall into my category of permanent damage.

My advice is that when some transgression is found or alleged -- Ron Olson was manager of team [at Solomon], "Get it right, Get it fast, Get it out, Get it Over". It does take some delays at the time, you have to gather the information and make sure it is right. An allegation has been made. Perhaps it turns into something more serious. But I do not see anything in Abacus that looks any different than our list of municipals. The allegation does not meet my criteria of losing reputation.

CM: I agree with all of that. But every business ought to decline business that is otherwise acceptable or legal. Standards shouldn't be what is legal, but it should be different. Every investment bank took skuzzy customers. There are too many skuzzy customers and too many skuzzy deals.

WB: Should we have done our deal?

CM: I think it was a closer case than you do.

WB: We insure about $140bn of muni bonds. We aren't bigger because we think the premiums aren't the right price. Some people when premiums are wrong get busier – do more. We don't, we go golfing. We think much is wrong on Wall Street. But our experience with Goldman goes back 44 years. We've bought more businesses through them than anyone else. We trade with them as well. We don't use them as investment advisors – we make our own decisions. When we trade, they could be selling or buying for their own account. They don't owe us a rationale or reasoning, nor do we owe them. They are acting in a non-fiduciary capacity when they are trading with us. If working on a transaction or financing, that is different. We have had a lot of very satisfactory business with Goldman. The first bond issue we did was 1967, on slide 2, an offering of Diversified Retailing Corp, $5,500,000. We were imaginative calling it diversified even though we only owned one business. NY Securities and

Nebraska Securities were the underwriters. Usually the lead underwriter was at the top. We were having trouble raising the $5.5m. I called Gus Levy and Al Gordon at Kidder Peabody. No one wanted to give us the money. Both Gus Levy and AL Gordon said we'll take a big piece. GS and Kidder were next largest underwriters, they asked us to leave their names off the tombstone. But they did come through for us, under an assumed name. Al Gordon died last year at 107, worked until 104. Gus Levy was a remarkable man.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

On Goldman, if Lloyd Blankfein had to leave, who would you like to see run GS, were you made aware of the Wells notice, was it material, and would you have disclosed it? Have you been contacted regarding Galleon investigation?

WB: We were not contacted by the SEC about Galleon. I read about it. No contact. I can't pronounce name of the guy who runs Galleon. I've talked to lawyers about Wells Notices. When Gen Re got wells, we stuck that in 10Q or maybe an 8K I think. That was not us receiving it but certain executives receiving it from the SEC. I have been on board of at least of one well known company when they got a Wells Notice and they didn't publicize it, and it was nothing. If you regard it as material, you report it. If I had received something about Abacus, it would have been immaterial.

CM: I wouldn't have regarded the Wells Notice as material. Companies can't report every little thing that happens or it would produce way too much confusing info. If every company reported everything of low probability, reports would run to hundreds of pages. You don't want to give blackmail potential to people.

WB: I don't know what percentage of Well Notices are material to companies. Who do I want running GS? If Lloyd had a twin brother, I'd go with him. I've never given it a thought on who else should run Goldman Sachs. There is no reason to think about that. There is not a reason to worry who besides Gus Levy should be running GS in 70s during Penn Central or Weinburg during Boesky. This does not reflect on Lloyd. There is plenty of stuff we don't like on Wall Street, but it is not specific to GS.

CM: There are plenty of CEOs I'd like to see dismissed in the US. Lloyd Blankfein is not one of them.

WB: I was worried he might start naming names [laughter].

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

BNSF deal. You have discussed the certainty of allowable returns in the industry. How are these calculated?

Buffett: The authorities (the Service Transportation Board) have adopted a 10.5% ROIC as the agreed upon amount. Of course this could be adjusted if there was a huge change in interest rates. Utilities often get 12% ROE. Railroads go to returns on invested capital. I don't think this is a crazy standard. Railroads, unlike the electric utilities where you are guaranteed a rate of return, are more volatile due to the risk of large economic contractions. If you behave yourself in electric utility, you will almost always make your returns. Railroads have more up and down, more downside. In general, you want railroads investing a lot more than depreciation to improve the transportation system. 10.5% is inducement enough. CThe country as a whole and the railroad systems have a common interest in not earning a huge profit but generating a fair return that allows for continued investment. If Service Transportation Board says 10.5%, that is not a crazy number.

Munger: Railroads have been regulated successfully. They have been totally rebuilt over the last 30-40 years through improved tracks, bridges - the average train is twice as long and twice as heavy. By and large a system of wise regulation and wise management allowed this. That was not always the case. The existing system has worked very well for all of us.

- *Source: BRK Annual Meeting 2010 Boodell & Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Moody's had potential conflicts of interest. Why do you retain Moody's in Berkshire's portfolio? Why didn't you use your influence to address Moody's perceived problems?

Buffett: I don't think conflicts of interest were the biggest causes of the ratings agencies' problems. Five years ago, virtually everyone thought home prices couldn't go down. Home prices always go up [it was widely believed]. There was an almost total belief that house prices would rise. They [the ratings agencies, investors, etc.] just didn't understand the various things that can happen in a bubble with $20 trillion in total assets. People leveraged up their biggest asset enormously. As it began to melt down, it became self-reinforcing. They [the ratings agencies] would have been criticized [if they'd bucked prevailing wisdom]. Taking a different view 4 – 5 years ago might have led to Congressional committees asking how they could be so un- American as to take such a dim view of American homeowners. Ratings agencies and the American people made terrible mistakes. So did Congress and regulators. I never made a call to Moody's regarding their procedures. When we own stock, we don't own them [companies] to change them. We've had very little luck when we've tried to change companies. Ratings agencies are still a good business. It's a business with few people [companies] in it, it doesn't require capital, and it has the fundamentals of a good business. They won't be doing the [previous] volume in capital markets for awhile. Charlie and I pay no attention to ratings. We don't outsource credit analysis.

Munger: Ratings agencies eagerly sought models that let them use higher math and make the decisions they wanted to make. To a man with a hammer, everything looks like a nail.

Buffett: The people who stirred up the Kool-Aid drank it. It was stupidity, and everyone else was doing it. I send out letters to managers every couple of years: If you're doing [something] because everyone else is, that's the wrong reason. That's not an acceptable excuse at Berkshire. We couldn't get Salomon to stop doing business with Mark Rich [who Buffett likened to Al Capone in the 1930's]. It's hard to get large organizations to not do what successful competitors are doing.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

[Q - Ratings agencies. Moody' s stake is being sold, has the investment case changed?]

WB: We won't discuss what we will or won't do with our securities. Agencies have a wonderful business. Good pricing power, no capital required. People will need ratings agencies. They succumbed to same mania that infected everyone – it is hard to think contrary to the crowd. They couldn't see a world where residential housing countrywide could collapse. Incentive may have been bad, but also it is just difficult to think contrary to the crowd. If structure doesn't change, it is a pretty darn good business. You can't shop pricing. We however have never paid any attention to ratings. If we can't do it ourselves, we don't do it. If model doesn't change, it's a good business.

CM: Ratings agencies in present form and present incentives have been a wonderful influence for many decades. Cognition faltered, and drifted with stupidity of the times. Part of it was asininity of American business education, their over-belief in models. I haven't heard a single apology for their huge contribution to our present difficulties.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

The tobacco industry has been under fire recently for its unhealthy products. Does this potential exist for Berkshire Hathaway holdings of Coca Cola, Dairy Queen and See's

Candies? Is there a potential risk of loss of intrinsic value of these companies due to the current health concerns?

I have been living on these products for 70 years. It depends on how you feel about sugar. 20% of Americans consume something with sugar in it every day. The life span of Americans has increased. There is no worry of product liability but this is always a fertile field for plaintiffs. Berkshire Hathaway has passed on some opportunities because of the concern of product liability.

[CM: Perniciousness is the power of the plaintiff contingency.]

Decisions are usually made with a pessimistic attitude and it is projected that the trend will continue to accelerate.

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

back to the questions.

Wells Fargo was a good deal at $9 per share, but AIG, the Irish banks, Fannie Mae, and Washington Mutual got there, and weren't. How does Buffett know the difference?

Buffett: I couldn't have been more wrong about the Irish banks. The $9.00 price isn't the issue, it's the business model. Nobody lied to me. It was a terrible mistake by me. I just plain wasn't paying attention and should have known about their land development loans. Wells Fargo, among the largest banks, has the best competitive position. Regarding WaMu [Washington Mutual], there were a lot of signs of possible trouble if the model of ever-rising housing prices was wrong. They were doing things they shouldn't be doing with leverage. If you read the [SEC Form] 10-Ks and 10-Qs, you could spot the difference. There's no comparison between Wells Fargo versus WaMu. Banking has real differences, but people don't look at them carefully. Think of a copper producer with costs at $2.50/pound versus another with costs of $1.00/pound. One's done [if prices drop to] $1.50/pound, and the other is fine. Wells' $600 million amortization of acquired deposits is not a real cost—yet nobody notices. I think it was pretty clear regarding Freddie and Fannie. We got calls from investment bankers [looking for interest in them]. One look and we could see they were in big, big trouble. People who don't spend a lot of time investing can't differentiate financial institutions. It's easier with Coke or a utility. You have to know something about banking.

Munger: Accounting practices should not be constructed to allow banks to get into trouble with loans. GAAP [generally accepted accounting principles] allows conservative banks to increase earnings if [they] change policies to [those of] poor ones.

Buffett: Gen Re's [derivatives] division cost us $400+ million to get out of. [It was] a black box to produce all sorts of numbers. It's hard for a passive investor to discern.

Munger: A lot of new regulation wouldn't have been needed if accounting had done a better job. If accountants don't have shame, they're not thinking right.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Wells Fargo reportedly wanted to decline TARP funds, and its Chairman, Dick Kovacevich, referred to the TARP as an "asinine" government program. Do you agree with the Wells' chairman, Charlie? And Warren, do you agree with Charlie?

Munger: Government is reacting to the biggest financial crisis in 70 years. It's unreasonable to expect perfect agreement with all of one's ideas. Of course there will be some ideas that are foolish, but government is entitled to be judged more leniently in times of such trouble. I think the idea that [a company's] earnings go up when its credit declines [due to the lower market value of its debt] is insane accounting.

Buffett: Mid-September was as close to a total financial meltdown as there could be. There was a commercial paper freeze-up, and $100 billion was taken out of money market funds. It required prompt action. We were looking into the abyss. I commend the actions taken, especially since they [government officials] were working 20 hours a day. Merrill Lynch would have gone if Bank of America didn't buy it. I sympathize with Dick Kovacevich's "asinine" comment. He was called on a Sunday and told to be in Washington D.C. the next day, without knowing why. He was told they [Wells Fargo] would take it [TARP funds], and he had an hour to sign. That's the nature of an emergency. By and large, the authorities did a good job. Among the large banks, Wells is a wonderful bank and has some advantages that other banks don't. I recommend [JP Morgan CEO] Jamie Dimon's shareholder letter; it's on JP Morgan's website. Jamie did a great job. It's as good a shareholder letter as I've seen. It's a long letter, but worth reading. He did a great job writing about the crisis.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What are the economic characteristics that make Kraft a good business?

WB: Most big food businesses are good businesses in that they earn good returns on tangible assets. If you own important branded assets in this country, and you have good assets, it is not easy to take on those products. Just imagine Coca-Cola. They sell 1.5 billion servings every day. It has been in everyone's mind since 1886—associated with good value, happiness and refreshment. It is virtually impossible to take it on in a huge way. It may not be the same with Kraft. Kool-Aid, but I'm not sure I want to take on Kool-Aid. To implant RC Cola in people's minds globally is very, very difficult. A brand is a promise. Coca-Cola delivers something to you. Virgin Cola — an unusual promise in a product—tried and couldn't figure it out. Whatever it was, it didn't work. Don Keough would know. Who would buy a can for two-cents-a-can less than Coca-Cola? We feel pretty good about branded products if they're leaders in their field. There is nothing unusual about Kraft that's different from Kellogg. Some good factors are price. If you don't pay too much, you will do okay. But you won't get superrich, as the attributes [of a strong brand] are well recognized.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

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Kraft, how would you grade Kraft board and compensation. CEO's $23m?

WB: I didn't like the Cadbury or pizza deals. We've made our share of dumb deals at Berkshire. But even though the odds are that is dumb -- doesn't mean it will be dumb. We get mad when other people do dumb things with our money. Sold $3.7b pizza business, and the other guy paid that, but Kraft received $2.4b net of tax. Pizza was earning $280m pretax in prior year. In 2009 it earned $340m pretax for sales that were growing faster. They didn't get a great price. Cadbury is growing slowly. Karft quoted last year's earnings for pizza and next year's earnings for Cadbury. Giving up $340m pretax with sales growing faster than Cadbury was particularly dumb when Kraft had already shown they understood how to do an efficient deal like Post Cereals. I don't do that [speak up] too often, but we owned a lot of it. I wanted to stick with pizza and skip Cadbury. Present price for Kraft is still well below the price the constituent pieces like Koolaid, Jello, and Oscar Meyer brands would sell for independently, particularly if valued the way Kraft valued Cadbury. I didn't like them paying so much to buy Cadbury. In terms of compensation, we have a system which is rational. Many companies have different compensation systems. [laughter]

CM: People at the top of a business, they think they are smarter about strategy. They often tire of the fierce competitors in the business they are in and dream of something else, where [competition is imagined to be less] – so they want to do a deal.

WB: And they will have lawyers, consultants, investment banks and others in who get paid for deals, telling them to do a deal.

CM: We have avoided a slight subset of stupidities, and they are important.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

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Could you give some specific numbers that relate to Coca Cola, Executive Jet, and some of the other acquisitions?

The businesses have different characteristics: Service businesses such as Executive Jet have costs that are human-resource and capital heavy. The carpet company has a large raw-material-buyer cost, and only 15% human-resource cost. The costs vary by business. The retail business costs include purchased goods and labor, and insurance has claims costs that can extend out over years. The important part of knowing the business is that we understand the cost structure and that the company has an enduring competitive advantage with top-notch management.

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

back to the questions.

Can you quantify the return on advertising spending at GEICO?

Buffett: I'm quoting someone [William Lever, founder of Lever Brothers]: "We waste half the money we spend on advertising—we just don't know which half." We spend $800 million on advertising [at GEICO], which is more than the number one and two [auto insurers], State Farm and Allstate. We will spend more and more. We want everyone in the U.S. to know we can save people money. We want to be on everyone's mind. A brand is a promise. The value of GEICO goes up by far more than its earnings each year.

Munger: If we don't need GEICO to advertise [as much], then it's that much more profitable.

Buffett: We're getting more than our money's worth on advertising. I'd spend $2 billion if we got the same return. We're the low-cost producer of something people have to buy.

[Comment - A brand is a promise, and a fulfilled promise will create substantial value.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

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To what extent should preferred shareholders and debt holders of GM and Chrysler should be exposed to losses in the restructurings of those companies?

Buffett: It's institution specific. There's no reason for senior debt to give up anything, if there's lots of equity and earnings power. Wells Fargo and US Bank are making lots of money, and earning power is intact. There's lots of equity beneath the preferreds. It's like a 70% LTV [loan-to-value] homeowner [shouldn't necessarily] lose because a 95%+ LTV homeowner is [losing]. I would love to buy all of US Bank or Wells Fargo. We can't, because it would make us a bank holding company. GM and Chrysler are very different. They're losing money, and there's no common equity. If equity is wiped out, then you have to decide who gets losses. Wells Fargo and US bank are very different.

Munger: I have nothing to add.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

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What is your opinion of the prospects for the Kmart/Sears merger? How will Eddie Lambert do at bringing Kmart and Sears together?

Nobody knows. Eddie is a very smart guy but putting Kmart and Sears together is a tough hand. Turning around a retailer that has been slipping for a long time would be very difficult. Can you think of an example of a retailer that was successfully turned around? Broadcasting is easy; retailing is the other extreme. If you had a network television station 50 years ago, you didn't really have to invent or being a good salesman. The network paid you; car dealers paid you, and you made money.

But in retail you have to be smarter than Wal-Mart. Every day retailers are constantly thinking about ways to get ahead of what they were doing the previous day.

Retailing is like shooting at a moving target. In the past, people didn't like to go excessive distances from the street cars to buy things. People would flock to those retailers that were near by. In 1996 we bought the Hochschild Kohn department store in Baltimore. We learned quickly that it wasn't going to be a winner, long-term, in a very short period of time. We had an antiquated distribution system. We did everything else right. We put in escalators. We gave people more credit. We had a great guy running it, and we still couldn't win. So we sold it around 1970. That store isn't there anymore. It isn't good enough that there were smart people running it.

It will be interesting to see how Kmart and Sears play out. They already have a lot of real estate, and have let go of a bunch of Sears' management (500 people). They've captured some savings already.

We would rather look for easier things to do. The Buffett grocery stores started in Omaha in 1869 and lasted for 100 years. There were two competitors. In 1950, one competitor went out of business. In 1960 the other closed. We had the whole town to ourselves and still didn't make any money.

How many retailers have really sunk, and then come back? Not many. I can't think of any. Don't bet against the best. Costco is working on a 10-11% gross margin that is better than the Wal-Mart's and Sams'. In comparison, department stores have 35% gross margins. It's tough to compete against the best deal for customers. Department stores will keep their old customers that have a habit of shopping there, but they won't pick up new ones. Wal-Mart is also a tough competitor because others can't compete at their margins. It's very efficient.

If Eddie sees it as impossible, he won't watch it evaporate. Maybe he can combine certain things and increase efficiencies, but he won't be able to compete against Costco's margins.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

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Berkshire

What explains the extraordinary success of Berkshire Hathaway?

Munger: You won't have anything like the past to look forward to. Berkshire's results have been so extreme that it's hard to think of a precedent in the history of the world. The balance sheet is gross considering the small beginnings of the place.

What has caused this extreme record to go on for such a long time? I would argue that it started with a young man reading everything when he was 10 years old, becoming a learning machine. He started this long run early. Had he not been learning all this time, our record would be a mere shadow of what it is. And he's actually improved since he passed the age at which most other people retire. Most people don't even try this – it takes practice.

So it's been a long run, with extraordinarily concentrated power by a man who is a ferocious learner. Our system ought to be more copied than it is. The system of passing power from one old codger to another is not necessarily the right system at all.

Berkshire has a very strong culture that will continue after we are gone. We have the talent here to do a lot of wonderful things over time, but they won't be brilliant things – except once in a blue moon – because we have too much money. The key is to avoid making mistakes. We have the right vehicle with the right standards. This is a very rational place.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Over the years, what has Berkshire Hathaway come to mean to you?

Berkshire is my way of teaching those things that mean the most to me and what I want to get out to others.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

What is the intrinsic value of Berkshire? Can you use book value as a guide to company valuations?

Really wonderful businesses need no book value. Book value is not a great proxy for intrinsic value and it is not a substitute. Berkshire was not worth book value in 1965, intrinsic value was below book value, now the business is worth a great deal more than book value. Book value is not a bad starting point for Berkshire when trying to calculate intrinsic value. We generally do not look at book value when evaluating a stock.

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

[Re: How would Warren value Berkshire?]

I'd think about what's there, what are they trying to do, what's it worth if they don't succeed in deploying additional capital, and what it's worth if they do. What are the resources available to keep adding to the collection of businesses? I think you'll find the information [in the annual report] that you need to evaluate Berkshire. Don't take it out to 4 decimal places. If Charlie and I had to write down a number, it would be different but in the same ballpark.

What Berkshire will be worth 10 years from now will depend on earnings, the quality of those earnings and the liquid assets we have. We keep working on it, but we're so big. There's no way in the world we can replicate the past, but hopefully we do a reasonable job.

[CM: Quickly get rid of the no-brainer decisions. Just go through the cash and investments, which are easy to value. The insurance operation is very interesting and look at the way the cash is deployed.]

I don't think we'll hit any home runs under any circumstances.

A normal level of cash for Berkshire might be about $10 billion. Because of the catastrophe-insurance business we're in, we don't scrape the bottom of the barrel [in terms of cash reserves]. We might temporarily dip below $10 billion – about one year's worth of earnings, incidentally – but we don't need anything like $40 billion. We'd be much happier if we had the excess invested in things we love.

I think, according to the 10-Q, we have $37 billion in cash [$37.675 billion, to be precise], not counting the finance businesses, and we spent $4 billion on Iscar and we're spending on some other things.

We'd like very much to spend down to $10 billion and we spend all of our time on this. We have one idea at present that could take up to $15 billion of cash, but it's a low probability. We'll get more choices in the utility area.

While we don't like having excess cash, we like doing dumb deals even less because we're stuck with them forever. You're right that we should be uncomfortable that we have this cash, but [the alternative of doing bad deals is far worse].

I think it's likely, but far from certain, that three years from now we will have significantly less cash and hopefully far more earnings power. We love having $4 billion in Iscar rather than it sitting around in short-term bonds. You're right to keep jabbing us, but we jab ourselves. Neither one of us likes having cash.

We're the biggest player in the world in catastrophe insurance, and people come to us because we're so liquid, but we don't need so much cash.

We spent $3.5 billion at the Berkshire level in PacifiCorp. Come back next year and I hope we have less cash.

[CM: Compare Berkshire 10 years ago to today. Despite much difficulty putting cash to work, we've bought a lot of great things and we're not altogether gloomy about how things are going. [Translation: He's doing handsprings about how Berkshire is doing!]]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

Intrinsic value is simply the sum of all future cash flows a business generates between now and judgment day, discounted back at the proper rate. But that's pretty nebulous. To value the businesses we own presently, we try to give you information to make a reasonable judgment about that. We own securities, which are easy to value, and operating businesses. We try to give you the information we use to value them.

Since Berkshire retains all of its earnings, it becomes very important to evaluate what we'll do with earnings over time.

If you'd looked at the intrinsic value of Berkshire in 1965, we had a textile business worth $12 [per share], but that wasn't all. You had to evaluate not only the business, but also the skill with which retained earnings would be used.

It's the same situation today: we will put to work billions of dollars this year and in the future. If we do this effectively, each dollar has a value of more than $1. We have $80,000 [per share] in marketable securities. If our insurance business breaks even, that's free to us. We're trying to add to our collection of operating businesses and they'll add to earnings.

If Charlie and I wrote down our estimates of Berkshire's intrinsic value, they wouldn't be exactly the same, but they would be close.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Q - what do you think about the market's valuation of Berkshire shares? The stock price is off more than the decline in Berkshire's operations.]

Buffett: You put your finger on something. We think our investments are worth more than they're carried for. [If you] leave out insurance earnings from underwriting, last year and this, earnings power was below normal. We have good businesses overall. A few have problems, but many will do fabulously well. It's okay to look at Berkshire as two parts: securities, and non-underwriting earnings power. We hope both will increase over time. Berkshire is cheaper in relation to intrinsic value at the end of 2008 than 2007. That's true of most companies. Our focus is for operating earnings to rise. Everything is affected by everything else in the financial world.

Munger: Last year was a bad year for a large "float" business. But long term, having float that you're getting at less than free will be a big advantage. Some buyer bought 10,000 Berkshire shares at the absolute peak. Our casualty insurance is probably the best in the business. [So are] our utilities. Iscar is better than others. Down the list, we have extraordinary businesses, and it's not easy to collect the best businesses, but we think we've done it. If you think it's easy to get in Berkshire's position, you are living in a different world than the one I inhabit.

Buffett: The insurance business is a remarkable business. In the September 2008 meltdown, people started behaving differently, like a bell had been rung. It hurt jewelry, carpet, NetJets. But the phones started ringing at GEICO. Thousands more came to the website to save money. Saving $100 became important. We added 665,000 policyholders in 2008, and [we added] 505,000 in [just] January through April 2009. GEICO is the low-cost producer of auto insurance. It builds a lot of value over time. We had 2 – 5% market share when Tony Nicely took over; 8% now. We're the third largest auto insurer in the country, and the fundamentals are in place to take that higher.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

How do you manage Berkshire Hathaway?

- Focused hard on creating a company over time that he would like today...built the company around the way he likes to work
- Hates meetings, managing people, and company rituals
- BRK has no general counsel or IR
- Directors meet in person only once per year
- 17 people employed at HQ
- "I don't call managers of my businesses, they call me"

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

back to the questions.

What do you tell your managers at Berkshire?

I send one message out every year and a half or two years. They get one letter from me every couple of years. And basically it says, run this business like it's the only business that your family can own for the next 100 years. You can't sell it. But every year don't measure it by the earnings in the quarter that year. Measure it by whether the moat around that business, what gives it competitive advantage over time has widened or narrowed. If you keep doing that for 100 years, it's going to work out very well. Then I tell them basically if the reason for doing something is everybody else is doing it, it's not good enough. If you have to use that as a reason, forget it. You don't have a good reason for doing something. Never use that.

- *Source: Buffett & Gates at Columbia Business School*
- *URL: http://www.cnbc.com/id/33901003*
- *Time: November 12th 2009*

back to the questions.

What is your fondest hope for Berkshire?

WB: I hope for two things: decent performance, and that the culture is maintained. We are shareholder- and manager-oriented. We want to be the best home in the world for wonderful family businesses. I fully expect that what we have tried to build into Berkshire will live into the future far beyond my tenure as CEO. We have great candidates to succeed me and we have a Board and managers that have all seen what works. We have a very fine and strong culture. I am sure it will be continued, and that we will get good results. I hope in 20 years that fine businesses will immediately think that if they have to sell their business, they would sell it to Berkshire.

CM: I would like to see Berkshire observed even more as an exemplar, and that we have even more influence on changes in other places. Things that have happened here would be useful to other companies.

WB: We also want it to have the oldest living managers. [laughter; standing ovation].

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

What can go wrong at Berkshire?

We don't worry about our businesses. We have a diverse group of good businesses with great managers. What we worry about is something going wrong. We have 180,000 employees, so it's guaranteed that something will go wrong. We know it will happen. We just try to have – we do have – the right incentives in place.

For example, when I get on a NetJets flight, even if I'm in a hurry, I don't say to the pilot, "Hey, I'm in a hurry. Can you speed it up." The last thing I want is a pilot rushing through his pre-flight checklist, etc.

But companies do this all the time in the way they incentivise people. They should not have a system that encourages a focus on quarterly earnings. Our managers have no quarterly budgets – I don't know what our numbers are going to be next quarter. I'm also careful not to communicate anything to the contrary via body language.

Insurance companies in particular can report pretty much any numbers that they want. With $44 billion of reserves, it would be easy to adjust the reserves to show whatever profit was desired.

Even if quarterly numbers weren't tied to our managers' compensation, if I went to Wall Street and promised X, the managers, who wouldn't want to let me down, might play some games to achieve X.

[CM: What we don't like in modern capitalism is the expectations game. It's not the kissing cousin of evil; it's the blood brother.

People who predict precisely are either kidding themselves or others. We've seen people get their egos involved. And everyone in the organization knows what the CEO has promised in public. It's setting up a system that sets up financial or psychological pressure for people to do things they probably don't want to do. It's a terrible mistake.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What is Berkshire's cost of capital?

[Munger: "Obviously, consideration of costs is key, including opportunity costs. Of course capital isn't free. It's easy to figure out your cost of borrowing, but theorists went bonkers on the cost of equity capital. They say that if you're generating a 100% return on capital, then you shouldn't invest in something that generates an 80% return on capital. It's crazy."]

A corporation's cost of capital is 1/4 of 1% below the return on capital of any deal the CEO wants to do.

I've listened to many cost of capital discussions and they've never made much sense. It's taught in business school and consultants use it, so Board members nod their heads without any idea of what's going on.

- *Source: BRK Annual Meeting 2001 Tilson Notes*
- *URL:*
- *Time: 2001*

Charlie and I don't know our cost of capital. It's taught a business schools, but we're skeptical. We just look to do the most intelligent thing we can with the capital that we have. We measure everything against our alternatives. I've never seen a cost of capital calculation that made sense to me. Have you Charlie?

[CM: Never. If you take the best text in economics by Mankiw, he says intelligent people make decisions based on opportunity costs -- in other words, it's your alternatives that matter. That's how we make all of our decisions. The rest of the world has gone off on some kick -- there's even a cost of equity capital. A perfectly amazing mental malfunction.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

You've targeted Berkshire Hathaway's book-value growth at 15%. You have come through at about 24%. That is a big gap of 9% between your modesty and the outcome. Why is there such a big gap?

I don't think it was modesty. For one thing, we've had a terrific market that has reappraised all businesses in the last 10 or 15 years. So when we really started worrying about future performance, the key factor was having larger amounts of capital. There's no question that the larger the amount of capital, the harder the job is. We were fortunate that that ascension in capital happened to coincide with things that just lifted all the boats substantially. We have had better luck than I would have guessed we would have had 10 years ago. It's been aided by a huge tailwind, and absent that tailwind we wouldn't have done as well. We won't have that tailwind in the future, I can assure you of that, but we will have a larger amount of capital. If Charlie and I could make a deal to increase the intrinsic value of Berkshire by 15% a year over the next 10 years, we would sign up now. I don't want you to even tempt us with lower numbers. If we paid no dividend at all over a 10 year period, you can figure out where a 15% rate would take us. We hope to get there, but we think that is absolutely tops. When the market starts underperforming businesses, the rate could be very substantially lower than that.

[CM: Well, the questioner came from Singapore which has perhaps the best economic record in the history of developing an economy and therefore he referred to 15% per annum as modest. It's not modest--it's arrogant. Only someone from Singapore would call it modest. (laughter)]

Be careful, Charlie, or we'll have a voice vote that we should move to Singapore. This is a group that wants performance. Large sums of money aren't going to compound at super rates. Anybody that manages large sums of money that promises or implies that they can achieve really outstanding returns--I'd stay away from them. The numbers just get too big. You've seen some of that with certain money management organizations in recent years. 15% on an intrinsic value which is substantially greater than our book value--it gets to be a very, very big number. We need huge ideas--we don't need thousands of ideas. I mean, we might need them, but we could never come up with them. What we look for is the very large idea. But we're not finding them now. We'll keep looking, and every now and then we will find something. If you think you have any chance of doing better than 15%--and believe me, that's not a number I would want to sign my name to--you're going to disappointed in Berkshire. We don't want to disappoint you, so that's the reason we try to be realistic about expectations.

- *Source: BRK Annual Meeting 1997*

- *URL:*
- *Time: May 1997*

I think (and Charlie does too) that Berkshire's value has grown significantly over past few years.

Intrinsic value is the stream of cash from now until judgment day, discounted based on consideration of other uses. You have to understand what kinds of businesses you can make a reasonable assessment of. At Berkshire, you have two questions: 1) what its businesses are worth now, and 2) what we do with the capital. 35 years ago, people underestimated what we would do with the capital. But we're now in a whole different game, with lots more capital.

Intrinsic value is a range.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[back to the questions.]

Why don't more people copy Berkshire as an investment vehicle--a corporation that pays no dividend?

There are other things to copy about Berkshire, but they don't get copied either. It was always interesting to me that everyone read Graham, and they didn't misread him, it's just that they didn't like following him. In terms of not paying dividends, we don't pay dividends because we think we can turn every dollar we make into more than a dollar in market value. The only reason for us to keep your money is to make it worth more by us keeping it than it would be worth if we gave it to you. That's the test, if we come to the conclusion that we can't do that, we should distribute it to you.

The interesting thing is we have certain businesses, See's Candy being one, where we don't have a way to intelligently use all of the money that See's generates within See's candy company. So if See's were a stand-alone company, it would pay very large dividends, not because it had a dividend paying policy, but because it wouldn't have a way of using, in this case, $30 million a year in intelligently expanding that business. We hope that in the overall Berkshire Hathaway scheme of things, that we can intelligently use the money that the companies in aggregate generate for us and we think so far we have, and we think the prospects are reasonably good that we can continue to do that. But dividend policy should really be determined by that criteria, also keeping in mind the possibilities of repurchasing stock. If Coke had paid no dividends, and simply repurchased shares and developed the bottling system, the shareholders probably would have been even better off. They've been sensationally well as it is, but they probably would have been even better off than they have been with the dividend policy they have. And that's true for Gillette and Disney...

[CM: That is not the standard thing that's taught in the corporate finance departments of our major universities. Why do we have this simple idea and they have another one? I've tried to understand why they think the way they do, and I have great difficulties with it. I've just concluded that they're wrong.]

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: 1997*

back to the questions.

What would Berkshire be like if you hadn't met Charlie Munger?

It would be very different, but I could say the same thing about a lot of other people, too. I've had a lot (at least a dozen) of heroes, including my parents. Charlie and I didn't meet until 1959, although he grew up a half a block from where I lived. Charlie was 35 and I was 29. We've been partners ever since. He is very strong-minded, but we've never had an argument that whole time. I've never been let down once. It must be a terrible feeling to be let down by a hero.

Hang around people who are better than you all the time. You do pick up the behavior of people who are around you. It will make you a better person. Marry upward. That is the person who is going to have the biggest effect on you. A relationship like that over the decades will do nothing but good.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

What happens when CEOs call you?

I sit and wait for the phone to ring. I can give most answers in less than a minute. Deals? I like to hear price first. No point hearing the rest if the price isn't good. Ponzio (terrible name for a business man) pitched the custom frame business in ten minutes. I got the price, liked it and did the deal. Custom frame business can't be replicated. Met Ponzio later for one hour and never saw him again.

- *Source: BRK Q&A by John Reuwer*
- *URL:*
- *Time: Nov 19th 2009*

back to the questions.

How to evaluate Berkshire or MSFT if it does not pay dividends?

It won't pay any dividends either. That is a promise I can keep. All you get with Berkshire, you stick it in your safe deposit box and then every year you go down and fondle it. You take it out and then you put it back. There is enormous psychic reward in that. Don't underestimate it.

The real question is if we can retain dollar bills and turn them into more than a dollar at a decent rate. That is what we try to do. And Charlie Munger and I have all our money in it to do that. That is all we will get paid for doing. We won't take any options or we won't take any salaries to speak of. But that is what we are trying to do. It gets harder all the time. The more money we manage the harder it is to do that. We would do way better percentage wise with Berkshire if it was 1/100th the present size. It is run for its owners, but it isn't run to give them dividends because so far every dollar that we earned or could have paid out, we have turned into more than a dollar. It is worth more than a dollar to keep it. Therefore, it would be silly to pay it out. Even if everyone was tax-free that owned it. It would have been a mistake to pay dividends at Berkshire. Because so far the dollar bills retained have turned into more than a dollar. But there is no guarantee that happens in the future. At some point the game runs out on that. That is what the business is about. Nothing else about the business do we judge ourselves by. We don’t judge it by the size of its home office building or anything the like the number of people working there. We have 12 people working at headquarters and 45,000 employees at Berkshire, 12 people at HQ and 3,500 sq ft. and we won’t change it.

But we will judge ourselves by the performance of the company and that is the only way we will get paid. But believe me, it is a lot harder than it used to be.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

Reporting on Berkshire?

We want you to understand Berkshire. I hope you see that. We want to you have the information we'd want if our positions were reversed. You need some basic information. We give information that Charlie and I would need to come up with our rough estimates of Berkshire's intrinsic value. You don't need to focus on all of the details, like whether we lease a particular building, but you can judge roughly in aggregate.

[CM: I think our reporting, considering the complexity of the enterprise, is better than that of any enterprise I know at giving shareholders the information they need. We do it conscientiously and I don't think it will get better.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Why don't you meet with analysts or large shareholders?

I have some problems with having meetings with some sub-groups of investors. If we had them, I'd want meetings with everyone. We try to convey a lot about our business in our annual report.

I don't think it fits our temperament at all. Many corporations spend a lot of time talking to analysts. One of our strengths is not doing this. It's very time-consuming and gives some shareholders an advantage. We're very egalitarian.

[CM: We like our current shareholders and don't want to entice anyone to become one. It would help current shareholders to hear our CEOs [of the Berkshire operating subsidiaries], but we promised them they could spend 100% of their time on their business. We place no impediments on them running their businesses. Many have expressed to me how happy they are that they don't have to spend 25% of time on activities they didn't like.]

We ask ourselves: "Are we telling you what we'd want to know if our positions were reversed?" We really try to put everything in our annual report that's germane to that. Anything that counts, in aggregate, we include.

The Washington Post has a shareholder day, which is very useful, because the annual meeting has turned into a farce, with so many people complaining about particular articles that were in the paper. But I really think that if we spend six hours here and spend time writing the annual report, we can convey the information we need to.

We're not trying to appeal to people who care about next quarter or year. We want to appeal to people who view this as a lifetime investment. There are relatively few investors who think about buying and putting it away forever like a farm.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[Re: Berkshire's Annual Report]

In it, we tell you everything I'd want to know if our positions were reversed. If I had 100% of my net worth in the stock and had been on a desert island for a year, it has everything I'd want to know. We don't leave anything out. You could drown people in information that doesn't make much difference. We explain it in the way we think about it. It's the report I would make to Charlie or he'd make to me if one of us were running the business and the other were inactive.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Why did BRK buy so many debt instruments during the crisis period as opposed to equity? e.g. Harley Davidson debt at 15% vs. equity at $14 now at $33?

Buffett: I'm not sure you would have asked that when we did the deal. Questions like this make sense now (in hindsight) but the answer was not so obvious last year. I don't know if Harley Davidson stock is worth $20 or $30. I like a business where customers tattoo their name on their chest - I'm not sure you can go around questioning those guys! [laughter]

I thought I knew they wouldn't go out of business. I knew enough to lend them money but not enough to buy shares. There are different risk profiles between debt and equity. We knew that HOG was not going out of business and that a 15% return was going to look very attractive. It was a simple decision about whether HOG was going to go broke or not. I didn't have to think about what was going to happen to the motorcycle industry. In general, BRK needs to have some money in stocks and some in other assets but stands ready to invest in anything that comes. They had the opportunity to put money to work when others couldn't and they took advantage.

If Goldman had said 12% non-callable – I might have taken that. Harley paper could be sold at 120, so there was some capital gain. If I can make money with a simple question: 'will they go bust or not?" then I don't have to answer the tougher questions on the equity, where will margins go and motorcycle sales and demand...

Munger: Very good response – we knew enough about debt, not equity. Very often in a distressed situation, when you buy the bonds, you should look at the equity. To some extent we are constrained by our fiduciary responsibility to people who hold our stock. It is a good question.

Buffett: Junior securities do better, but senior securities help you sleep better. We have $60bn of liabilities, some out 50yrs. We like running it safe. We could do things when others were paralyzed.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

In the Annual Reports, look-through earnings, and unaudited financials, are no longer included. Why has it changed?

WB: On financials, we do break out four ways which we think makes it clear. We don't want to break out into 70 different groups. Too much information obfuscates. It is divided into regulated, insurance, and so on. Now look-through earnings – some of that I don't repeat every year. We try to run at 12k words, if you extend it too much... well, let's just say that no one has told me it is too short. Every other year I may break down operating and investment look-through earnings. I am writing it to my two sisters, very intelligent and interested people, but not familiar with all the lingo. I want them to understand how I am thinking about the business and by definition, how I think they should think about it. And to answer questions that I think would be in my mind.

CM: Details can change as facts change. Undistributed earnings of shares we own but don't control are much less important now than they used to be. They aren't more than 15% of reported earnings – they used to be much higher percentage. People understand Coca-Cola and Amex aren't included in earnings.

- *Source: BRK Annual Meeting 2010 Boodell Notes*

- *URL:*
- *Time: 2010*

back to the questions.

Berkshire has the best and most loyal investors. How do you attract and retain a shareholder base?

WB: If you are running public company, you can have Osama Bin Laden and the Pope as shareholders. You don't elect them, they elect you. If you want the shareholder body to be in synch with you, you have to let them know exactly what kind of institution you plan to run. To some it says come in, to others it says stay out. Phil Fischer once wrote – restaurant says French food, and inside serves French food – all good. You can't have hamburgers on the sign outside and French food inside. That's when you run into trouble. We want people who think like we do. If you think earnings qtr on qtr are important, you will be disappointed. We try to advertise what we are, and we try to deliver. We think we have best shareholders that want to buy the business and partner with us and we'll treat them like partners. In turn they give us comfort.

CM: Warren and I started managing money for family and friends. Then we morphed into a public company. That is how we treat them still. That is not put on, that is what we do. Many shareholders are hostile force putting undue pressure on managers. We stayed with it, and we got into this by accident.

WB: We also did not have investor relations department. It is ridiculous, to cater to expectations of people which you can't do. Someone will own your shares in the end, they won't be unowned. Get the ones who will be in synch. Tell them accurately.

CM: We shouldn't be as critical of people who came up a different way. WB: We'll give up being critical for 5-10 minutes then. [laughter]

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What is the current acquisition appetite and outlook? Has the phone been ringing?

Buffett: The phone does not ring much at BRK. They have said they want larger deals so that weeds out a lot of phone calls. Hurdle now is $75m or 100m pretax, so not many calls, if we get a three or four calls a year, that is good. We are as interested as ever. We wrote a big check and shares for BNSF. I would love it if Monday morning a deal came in.

Munger: Amazing we have been as successful as we have. It is human revulsion which drives this, they don't want to sell to another place which is fee driven. We have a screening device protecting us from wrong sort of people. We get offered things from people who wouldn't sell to anyone else.

Buffett: Iscar said that they wanted to sell to BRK or no one. Another company had 3 options-- sell to a competitor (where it would probably would have been worth more), sell as an LBO (where the company would be a piece of meat to be re-sold), or sell to BRK (because they were the only player left). This scenario plays out all the time but it is somewhat accidental. People want to monetize their business, often so they can give away money. BRK is a logical and ready buyer in a lot of deals but they can't accelerate this process in any way. Another business we own, the competitor wanted to buy them – to dismantle something he spent 30 yrs building. It was probably worth more to the competitor. The other option was a leveraged buyout firm (they call them private equity now) and he didn't want his place as a piece of meat to be resold. I don't come to you because you are attractive but you are the only one left! They want a permanent home. Periodically that comes up – we are logical place. We are ready to act when it happens. If it is a $10bil deal I'll do it.

Munger: It isn't over. The acquisition pace will be slower than in other years, but it isn't over – and not so bad since we are all so much richer than the earlier days.

- *Source: BRK Annual Meeting 2010 Boodell & Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

There are a lot of questions you do not get asked. So, what questions would you ask yourselves regarding BRK's financials?

Buffett: Can you keep using all the capital you generate effectively for a long time? There comes a point where the numbers get big enough that it becomes very hard to move the needle with capital allocation. It is hard to create more than $1 for each $1 invested. He thinks that BRK can go further now than he would have thought 30 yrs ago but there is a limit. There will come a time when they cannot intelligently use the amount of capital they accumulate and at that point they will do what's best for BRK shareholders.

Munger: There is not a lot to say about things that need to be done differently at BRK. It is interesting that they got into BYD even though it is a type of tech company that they had talked about avoiding in the past. He thinks it is because they have learned and that the BYD investment is likely to work out very well. BYD can help solve significant problems of the world and shareholders should take pride in that. He feels the same way about BYD as he did about Peter Kiewet. He and Warren have found a way to invest in their own kind, except these people are better. He said he would not have been good at venture capital.

BYD has already accomplished things that seemed impossible to do but they have done them. He does not think this is the last thing that BRK does that will seem a bit unusual. In terms of the BNSF deal, he knew it was better for their shareholders but it was also good for BRK shareholders. So, who cares who does better? He likes the fact that a lot of engineers are being added to BRK.

Also, he thinks that they will find people at BRK on the investing side that are almost as good as Warren. Some of these people may even have what Warren lacks. So, it won't be all negative when Warren is not around.

- *Source: BRK Annual Meeting 2010 Boodell & Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What would BRK's exposure be in another global financial meltdown?

WB: Assuming a full meltdown, we would be hurt badly. But we bet government could solve panic. In 2008 many thought yes they could, but would they? Or would it get muddled up in Congress? We went all in, and government succeeded. If we talk about a massive nuclear attack, who knows. But if we have something huge, it won't be because of our insurance business. Berkshire can withstand it. There could be situation where world might paralyze. Government now better understands the situation however. They did move quickly. Things will work in the US unless the system is destroyed. Land doesn't go away, people don't get less innovative, the productive resources are still here. We don't see that happening. Things do correlate on the downside, but we are built to withstand.

CM: I'm not worried about it.

WB: Huge amounts of debt won't do us in.

- *Source: BRK Annual Meeting 2010 Boodell & Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What economic laws have worked best for Berkshire?

It is all a matter of trying to find businesses with wide moats protecting a large castle occupied by an honest lord. Moats might be a natural franchise, brand loyalty, or being a low-cost producer. In a capitalistic society, all moats are subject to attack: if you have a good castle, others will want it. What we want to figure out is what keeps the castle standing and how smart is the lord. [CM:we also like to look for low agency costs on that lord, economies of scale and □"economies of intelligence.□"]

Buffett elaborated on the “economies of intelligence”: the idea is to find businesses where you have to be smart only once instead of being smart forever. Retailing is a business where you have to be smart forever: your competitors will always copy your innovations. Buying a network TV station in the early days of television required you to be smart only once. In that kind of business, a terrible manager can still make a fortune. Given the choice between the two (a business where you have to be smart forever or one where you have to be smart once), Buffett advised, pick the great business - be smart once.

- *Source: BRK Meeting 1995*
- *URL:*
- *Time: 1995*

back to the questions.

What’s the cheapest form of financing for Berkshire Hathaway? Would it make sense to issue bonds right now?

For us, the best source of financing is our cheap float. Not every insurance company has float as cheap as ours; for us, it’s low-cost. Bonds simply wouldn’t be as cheap for us, so we wouldn’t be issuing any here.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

Do you have an opinion on whether BRK should or shouldn't be included in the S&500?

The S&P people agree that Berkshire Hathaway should be included in the index, but for the liquidity situation. Indexing has worked out to be way more popular than anybody ever thought it would be ten or fifteen years ago, including ourselves. The amount of money going into index funds keeps going up; if you added Berkshire Hathaway to the S&P 500, there would be an instant market order for six or seven percent of the outstanding shares immediately - something like 100,000 shares a day. That wouldn□'t be good; the price of the stock would go up, but no one would buy it. It wouldn□'t be right to add the stock to the index, then not let it be bought.

One solution: if it was added to the index, we could sell shares to absorb demand and neutralize the effect of the incremental demand. The problem is, we don□'t want to sell equity just to be in an index. Maybe we could do something like what has been done in Australia: phase in the weighting over a twelve-month period. That would result in a market order for 100,000 shares a month, something more manageable. S&P has never done something like that before, but if indexing continues to grow, they□'ll have to do something like that.

Something that you ought to take note of - many companies do worse after being added to the S&P index. When a stock gets added, there□'s an artificial demand for the stock that just can□'t last forever. Shorting the stocks that get added can make you money, after they take that initial jump.

[CM: My guess is that Berkshire Hathaway will eventually be added to the S&P 500. Maybe not soon, but someone will figure out a way.]

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

How much has Berkshire Hathaway done in the way of philanthropy?

There□'s a discussion of our shareholder contribution program contained in the annual report. And apart from our shareholder contributions, we contributed about $2.6 billion to the federal government this year.

There are other ways we contribute to society. To the extent that we are low cost providers of things people want, we help out those who want those goods and services. Take GEICO, for instance. To the extent that GEICO is more efficient at delivering insurance to customers, let□'s say, by 15%, on $4 billion of premiums written, there is a $600 million contribution to insurance consumers overall.

We are not big believers of giving away the assets of owners to what we like. We don□’t think that companies should pass out dollars to pet charities of the CEO. And we won□’t do that here. (Applause).

[CM: I am a little different on the subject from Warren. And I applaud the shareholder□’s question of □“isn□’t there more to living than just piling up money?□” I do think it□’s important to set an example.]

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[A shareholder asked Buffett to ask his cousin, Jimmy Buffett, to play at a charitable event to help save Cypress Gardens.]

I don't ask my friends to do such things because it puts them in an uncomfortable position. If they did it, I'd never know if they did so because I asked them or because they believed in it.

[CM: Both of us feel that those of us who have been very fortunate have a duty to give back. Whether one gives a lot as one goes along as I do or a little and then a lot [when one dies] as Warren does is a matter of personal preference. I would hate to have people ask me for money all day long. Warren couldn't stand it.]

Let's assume that I was in the womb and there was an identical twin next to me, and genie appeared and said "You're going to be born in 24 hours and one of you will be born in Omaha and one in Bangladesh. You two decide which is which. Let's start bidding and whichever one of you bids a higher percentage of your estate to society when you die gets to be born in Omaha. I think the bidding would be 100%. Imagine me in Bangladesh walking down the street saying "I can allocate capital." I wouldn't last very long.

When we were born, odds were 50 to 1 against us being born in the US. So we were lucky. My lump sum should go to society. There's no reason little Buffetts should be running around in 100 years rich because they were lucky.

- *Source: BRK Annual Meeting 2003 Tilson Notes*

- *URL:*
- *Time: 2003*

Buffett: You have to pick the things that are important to you. For many people, it's their church or their school or schools generally. To some extent, you should give to whatever gives you the most satisfaction.

I like to think of things that are important but don't have natural funding constituencies, but for most people there's nothing wrong with giving to things that give them satisfaction. You don't have to be as objective about that as you are when picking securities. I'd go where my gut told me.

With large sums, I'd think about how the money could impact a big societal problem that doesn't get enough attention.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Can you tell us what are your goals and expectations for the value of Berkshire Hathaway□'s float?

The float has grown at a much faster rate than I thought it would in 1967 when we entered the business. I just tried to grow cheap float as fast as I could. It□'s very much a goal of Berkshire Hathaway to grow it as fast as possible at a very cheap rate. The growth of Berkshire Hathaway will depend on how we grow that float.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

Why has Berkshire Hathaway avoided the life insurance business? And also, can you explain why there are discounts on A or B shares from time to time?

We have no particular bias against the life insurance business; in fact, we□’re in it through General Re. The problem with it is that it□’s not terribly profitable, and you wind up basically managing equities for other people [so there is a sum certain at death]. We don□’t want to wear two hats, just one for Berkshire Hathaway. We want to put our best equity ideas into Berkshire Hathaway and it wouldn□’t be fair to other investor/policy holders out of the picture.

As for the occasional A and B share discounts: I wrote something on our website about this a while ago. Remember that the most that a B share can be worth is 1/30th of an A share. There□’ll always be arbitrage between the two to keep it that way. Short the one that□’s higher in value than the other, and buy the one that□’s undervalued. I□’d do it myself if it didn□’t trigger tax liabilities. I understand that there are some tax-exempt investors who are doing that now.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

How does Berkshire compensate it's managers?

When a business requires no capital, we reward the manager on earnings. If it does [require capital], then we add a charge for the cost of capital. We don't have one compensation system.

We've never had problems with compensation. If capital is an important part of business, we include a charge for it. If not, if we don't.

Our compenastion systems are simple. This is not rocket science [though Corporate America seems to make it so]. Read proxy statements -- it's mind-boggling the complexity. Compensation consultants have to earn their fee [by coming up with a complex plan that they can] tweak each year. It's becomes an industry and it won't break itself up. True of any bureaucracy.

We could spend $1 million per year on something we could figure out in five minutes. Can you imagine a consultant giving you a one-page compensation agreement? They couldn't charge you a lot of money for that.

The main reason we get good results from our managers is that they like batting .400. Yes they like the pay, but it's incidental. It has to be fair, but that is not a complicated procedure. It's tailored to things under their control.

Some of our businesses are easy, so they much achieve high performance before [the CEO's] bonus kicks in. In tough businesses, lower performance requires as much hard work, so the hurdle is lower.

Morale is pretty good in Berkshire subsidiaries. Berkshires managers hardly ever leave. In 38 years, we've never had a CEO leave to work for a competitor. We face one management succession problem roughly every 18 months.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[CM: As the shareholders know, our system is different from most big corporations. We think it's less capricious. The stock option system may give extraordinary rewards to some people who did nothing, and give nothing to those who deserve a lot. Except where we inherit it [a stock option program], we don't use it.]

We inherited stock options, primarily with Gen Re. Those options turned out to be quite valuable. Would not have been if Gen Re had been a stand-alone. Not to criticize anyone, but some people made a lot of money who contributed nothing. Options are a royalty on the passage of time. They put management's interests contrary to the interests of shareholders.

We believe in tying incentives to things under management's control. To give a lottery ticket to someone who runs 1% of Berkshire is really crazy. We saw more crazy stuff in the 1990s than in the previous 100 years. There was wealth transfer that has never been experienced before. I'll accept lottery tickets, but they would have no impact on my decisions or behavior.

A properly designed option system, tied to performance, can be sensible. But to just pass them out, give a 10-year ride and grant more if the stock goes down, doesn't make sense.

[CM: If we're right, then it has considerable implications. [It would mean that] more than 99% of corporate compensation systems are more than a little crazy. We're not against vast rewards for people who deserve them, but [most stock options programs don't achieve this.]]

We love to see people at Berkshire making money, but only if they're making money for you. Compensation is an interesting subject and I'm going to write about it next year.

It's not a market system. Compensation people say it's like baseball negotiation [between a team owner and a star player], but it's not. The player is negotiating with someone who's paying the money. But at large corporations, on one side is guy who really cares and on the other side is the compensation committee -- generally people who are not picked for their strong spines -- to them, it's play money. It's almost meaningless to the guy on one side if the CEO gets 100,000 shares of restricted stock or one million, but the guy on the other side cares a lot. You get parity in negotiations with unions -- that's real negotiation.

I've never seen a compensation consultant say that the Board should reduce the CEO's salary or get rid of this bozo. They'd never get hired again. It's a bad system and needs improvement. There have been some improvements. It [improvement in this area] is the acid test of corporate reform.

Over time, a vast disparity in pay has arisen, and there's a disconnect between performance and pay. So arise, shareholders!

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

You could make a lot of money working for Berkshire, but it will relate to performance. No-one’s going to make a lot of money for average performance.

We have some extraordinary management at MidAmerican [Energy Holdings]. In terms of compensation, there are two key individuals [David Sokol and Greg Abel]. For their compensation, I took a yellow pad, sketched out a proposal in two minutes, talked to Walter Scott (who's our partner in this business) and when he said it looked OK, talked to the managers. The only change was that we had more than 50% of the rewards going to the CEO, David Sokol, and he said to make it 50/50.

Charlie and I spend a couple of minutes [designing compensation plans]. It's not highly complex, but you have to understand the business. No one formula can work – that would be asinine. Take Chuck Huggins at See's – he's had the same plan for 30 years. For GEICO, there are two variables [that determine compensation] for Tony Nicely on down.

[From Buffett's 1996 annual letter, the two are: "Today, the bonuses received by dozens of top executives, starting with Tony, are based upon only two key variables: (1) growth in voluntary auto policies and (2) underwriting profitability on "seasoned" auto business (meaning policies that have been on the books for more than one year). In addition, we use the same yardsticks to calculate the annual contribution to the company's profit-sharing plan. Everyone at GEICO knows what counts."]

We do not bring in compensation consultants and we don't have a human resources department, legal department, etc. That makes life way to complicated, and people get vested in going to conferences.

In some businesses, like network television, you'll earn a huge return on equity even if your nitwit nephew runs it (as long as you keep him out of the office). But other businesses are the opposite.

You should charge some cost of capital. Measure the key metrics, set a hurdle and only pay for adding value [above this hurdle], even if the returns appear low [but would have been a lot lower without the value the manager added]. If you had a group of network television stations, you would have 35% pretax margins if a chimp ran it, so you'd only pay for excess above this. It would be silly to have 10% or 15% hurdle, but a bad manager will try to get this.

In the end, if you have a great manager, you want to pay them very well.

[Our approach to compensation] is wildly different from the approach of most companies, which go through elaborate procedures. The typical corporation has a compensation committee, and believe me, they don't ask Dobermans to be on it; rather, they want Chihuahuas who've been sedated.

I've been on 19 boards and only been asked to be on one compensation committee – and they regretted it. [In that case, because I opposed the compensation plan,] I was outvoted – by two smart, honorable people, by the way.

I've never seen a compensation consultant say: "This bozo you've got [the CEO] is only worth half what you're paying him."

It's an unequal negotiation [between the board and the CEO]. The CEO really cares, but to the board, it's play money. It's hard for board members – they just get handed a piece of paper showing what the top quartile of comparable CEOs get paid, so there's a ratcheting effect. In this kind of system, things will quickly get out of whack. There's some change now, but it's not being led by CEOs.

[CM: I'd rather throw a viper down my shirt front than hire a compensation consultant.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Do Berkshire's Manager's Enjoy Coming to the Annual Meeting?

We have many managers here. We don't require them to come. Some have rarely come. If they enjoy it, they come. We have a sensational group of managers. We don't get in their way and don't demand anything except that they work for the owners. I hope you thank them when they see them.

[CM: I don't think our managers who come to this meeting are picking up new tricks -- they know all the tricks related to their business -- but this is an interesting place and it gets more interesting every year and they like being part of it.]

In some cases, our managers will check with each other to see what they're paying for things, combine purchasing power, etc. Sometimes they save real money, but this is not organized by Omaha and nobody has to play.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Your successor at Berkshire?

We have four people today in the organization who can do my job – in some cases better than I can, in some ways not quite as well. That wasn't true 15 years ago.

We will have someone take over Berkshire who's been in the organization a long time. One reason is that we like the culture and want someone who knows the culture and how it works. Also, we've gotten to know them and observe them.

If I die first, all my stock goes to my wife. She might put it in the [Buffett] foundation then, or it'll go there when she dies. It has approximately 30% of the votes. By law, the foundation would have to get down to 20% within five years.

I think Berkshire has a far better chance than any major company of maintaining its culture [when Charlie and I are gone]. The people running it have grown up in the culture. My wife and son are there [on the board] as guardians of the culture.

A great example [of how this can work] is Wal-Mart when Sam Walton died. The Walton family has done a magnificent job of hiring successors to run the place and maintain the culture. The Waltons are there to step in if needed, but they don't run the business.

I think my family and Berkshire's managers will retain the culture.

Munger: If anyone would have a reason to worry, it would be me, but having known the Buffett family for decades, I say to you: “Don’t worry about it. You should be so lucky.”

[During the initial official-business part of the meeting, a shareholder asked Buffett why he had his son and wife on the board, rather than Berkshire operating managers, who (according to the shareholder) have more business experience. Buffett did not answer the question – perhaps because it was not the appropriate forum (the shareholder could have gotten in line and asked the question during the Q&A period) – but I think the answer is quite simple: Buffett is increasingly sensitive to making Berkshire a role model for good corporate governance (it always has been, but appearances are especially important these days). Hence, Berkshire added a number of world-class independent board members this year. However, Buffett also wants to be sure that Berkshire’s unique culture is maintained forever, and he trusts his wife and son to ensure this more than anyone else.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Succession at Berkshire?

When we pass, nothing will change, but there will likely be a hiatus of sorts where people might not have the same feelings about selling their business to Berkshire. The phone might not ring for a while. But that will pass because the people the board has selected to run Berkshire are phenomenal and Berkshire will remain one of a kind.

[Regarding a shareholder’s idea of naming a COO today:] I don’t think it works well to have a half-and-half arrangement. We don’t need an operating guy – we have people running the businesses and the main thing is not to destroy or damage the spirit they have. And as long as I’m around, people will want to talk to me [about selling their businesses].

There will be [negative] stories a year after I die headlined “Berkshire: One Year Later,” but that will fade out and my successor will put his own particular stamp on the place. But he won’t mess with the culture – he’s too smart and it works too well. We’re a one-of-a-kind place for certain owners. They have a problem to solve and only we can offer a good home [for their business].

[CM: Speaking for the Munger heirs, I hope they continue to wring the last drop of good out of Warren.]

At low pay! [Laughter]

If we thought there was some better way to make this place run better or ease the transition, we'd do it, but I don't think there is.

The person [who would take over] knows the business, knows how to make good deals, and knows how to avoid other kinds of deals – which is equally important. Once it [the transition] happened, Berkshire might even be stronger than before because people would realize that it wasn't just about an individual.

Even though Sam Walton died, Wal-Mart has become a stronger company.

In our shareholder letter and in this meeting, [we try to make clear what our culture is]. We want managers to join us who believe in what we do and make a lifetime commitment to join us. Once they join us, we want to act consistently and be consistent. They see that it works.

There are plenty of people who don't believe in our culture and they don't join us. It would be bad to have a mismatch. The nice thing about it is that our culture is so well defined that there are rarely mismatches.

We don't have any formal training for our culture – it isn't really necessary.

If I died tonight, there are three replacements. Any of them would not miss a beat in leading this culture.

[CM: If Warren has kept the faith until he's 75 years old, do you really think he'll blow the job of passing that culture along? What could be more important? You all have a lot more things to worry about than the candle at Berkshire going out because some people eventually die.

We don't train executives, we find them. If a mountain stands up like Everest, you don't have to be a genius to figure out that it's a high mountain.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[RE: Berkshire's Next Chief Investment Officer]

Buffett: I mentioned in the annual report that in looking for an investment manager to succeed me, we're looking for someone who doesn't only learn from things that have happened, but can also envision things that have never happened. This is our job in insurance and investments. Many people are very smart, but are not wired to think about things that haven't happened before.

[In response to another question on the same topic:] We're looking for one or more people – it's entirely possible that it could be three or four people. We're not looking for someone to teach – we're looking for someone who knows how to do it.

We received about 600-700 applications, including one guy who recommended his four-year-old son. We're heard from lots of good people, but the key is whether they could do it running $100 billion. We want to find someone who can run large sums of money mildly better than the market – and I emphasize mildly because there's no way anyone can beat the S&P 500 by 10 percentage points per year [running such a large amount of money]. It isn't going to happen. But a few percentage points per year is possible.

Anything times zero is zero and I don't care how good the record is in every other year if one year there's a zero. We're looking for someone who is wired in such a way as to see risks that haven't occurred and be cognizant of risks that have occurred. Charlie and I have seen guys go broke or close to it because 99 of 100 of their decisions were good, but the 100th did them in.

We want to give them each a chunk of about $5 billion and have them manage it for a period of time, as if they were managing $100 billion. Then [after watching them and evaluating them for a while], we'd turn over the entire portfolio to one or more of them.

Munger: It reminds me of the young guy who went up to Mozart and said, "I'd like to write symphonies." When Mozart said, “You’re too young,” the young man replied, “But you were young when you started.” Mozart pointed out, “Yes, but I wasn’t asking anyone else for advice on how to do it.”

Buffett: We’ll find some people. I had to do this years ago when I decided to close the Buffett Partnership in 1969 and had to recommend to my investors where they should put 100% of their money. There were many, many investors with great records, but I chose Charlie, Sandy Gottesman, and Bill Ruane. Charlie wasn’t interested in more partners, but Sandy Gottesman took some individual accounts and those investors have been very happy. Bill Ruane set up a separate mutual fund [the Sequoia Fund], which has also done very well.

So, I identified three people who were conservative, where there was no chance at all that they’d blow up, who were not only terrific investors, but also terrific stewards of capital who would treat investors right. They were my age, which helped – I now have to look at people in a generation where I don’t know many people.

In 1979, I picked Lou Simpson for GEICO. I’d never met him but once I did, it was clear that he’d get an above-average result and there was no chance of a bad result. [Buffett published Simpson’s spectacular record on page 18 of his 2004 annual report, showing that Simpson had compounded at 20.3% annually from 1980-2004 vs. 13.5% for the S&P 500.]

I have a job to do and I’ll do it.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Q - Can you provide an update on the succession plan?]

WB: We have three CEO candidates who could step in. The Board will pick someone for CEO. For investment officer, the Board has four names. As we’ve discussed, any one, or all four, would be good or better than me at this job. Any one of the four would be here tomorrow if I died tonight. They are all reasonably young, and all well to do.

Compensation is not a major factor. Any of the four would come. There's no reason to come now. I worked for Ben Graham, but in the end I wanted to make the decisions. I prefer to make my own decisions. It is better in this case. When I'm not around to make decisions the Board will decide how many to use. They will be heavily influenced by the incoming CEO, by how he wants to work with them. There will be no gap. They could easily have a better record than my recent record.

CM: We still have a rising young man here named Warren Buffett. I think we want to encourage this rising young man to reach his full potential.

WB: On the corporate America aging issue, I think we are doing fine. Our average age is 80, so we are only aging at 1.25% per year — the lowest rate of aging in corporate America. If you have a 50-year-old management team, they age 2% every year. I think you run a bigger risk there. [laughing]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

How did you select the four investment professionals who could succeed you in the CIO [Chief Investment Officer] position?

WB: The criteria are in the 2006 Annual Report. Records are important. Human qualities are important. We think we can make those judgments, and we made an affirmative judgment on four. We need someone who can see risks, especially ones that haven't happened before. All the banks have models, but they didn't have the faintest idea [what could happen under new circumstances]. You need someone you trust with analytics, but one that also has the ability to contemplate new possibilities and risks. That is a rare quality. That inability to envision something not in the models can be fatal. Charlie and I spend a lot of time thinking about things that could hit us out of the blue that other people don't include in their thinking. We miss a lot of opportunities. But we think it's essential when managing other people's money. You should read the 2006 Annual Report again.

CM: You can see how risk-averse Berkshire is. We try to behave in a way so that no rational person will worry about our credit. We also try to behave in a way that if people don't like our credit, we wouldn't notice it for months. That double layering of protection against risk is like breathing. The alternative culture is that you call a man a Chief Risk Officer, but often he is just a man who makes you feel good while you do dumb things. Like the Delphic oracle, a dumb soothsayer, and people say how can he do dumb things if he has a PhD and can do all the advanced math? You crave a system such that you torture reality to fit a structure that doesn't match with extreme situations in reality. You feel confident because you compute the risks, but you haven't—you have just clobbered up your own head.

WB: We run Berkshire so that if the world was working in a different way tomorrow, we don't have a problem. We are not dependent on others. It may mean giving up earning a higher return 99% or 99.5% of the time in any given year, but we wouldn't feel comfortable running the business any other way. Why be ex- posed to ruin and disgrace and embarrassment [for a few extra percentage points]? If we can earn a decent return on capital, what is an extra point? This cannot be farmed out. Management thought they were farming it out at some institutions.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[back to the questions.]

How did the four CIO candidates perform last year, did they use leverage? (2010)

WB: They did not distinguish themselves in 2008. In 2009 they did pretty darn well. It is not same four. None use leverage.

CM: One I know made 200% with leverage of zero.

WB: The list of four will move around but the portfolio manager positions are far less urgent than who is next CEO. If

I die tonight, there will be a new CEO within 24 hours. All directors are comfortable with that. I can go on vacation on investments. Directors wouldn't do it, but they could wait a month, 2 months – Coca-Cola won't go away. They can be leisurely. We have a list of very capable people who would like very much to manage BRK money and would do well. That problem will get solved. In terms of the CEO question, you want an answer immediately and want to be prepared the next day. I did just have a physical however, and came out fine. It drives my doctor nuts the way I eat, but he can't find anything wrong.

CM: I am not most optimistic of the two people up here. And yet I am quite optimistic that the culture of Berkshire will last a long, long time and outlast the life of the founder.

WB: I think we have the strongest culture of any large company, and they'll love it after I'm gone. [clapping] Don't clap there! [laughter]

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

How did the four investment managers waiting "in the wings" to eventually replace you perform in 2008? How would you rate these managers? Are all four still on the list?

Buffett: All four are still on the list of candidates. There are three candidates for the CEO position—all are internal candidates—and four possibilities for the investment manager —inside and outside Berkshire—one or more could be chosen. It's up to the board. The CEO will come from inside. The [investment head candidates] did no better than match the S&P 500's decline of 37% in 2008. They didn't cover themselves in glory, but I didn't either.

Munger: Every investment manager that I know of who I regard as intelligent and successful—they all got creamed last year.

Buffett: All four have better than average long-term records—modestly to significantly better than average over the past 10 years, and I suspect [they] will be better over the next 10 years. There were a lot of things that didn't work last year. I did not change the list [of candidates]. If I dropped dead tonight, the board knows who the new CEO would be. The choice of the new investment manager will be made in consultation with the new CEO. The investment management position is not so critical [time-wise].

Munger: We don't want an investment manager who thought he could jump into cash due to macroeconomic factors and then jump back [into stocks].

Buffett: We would exclude any such person.

[Comment: There is no such thing as an investor with above-average results every year, yet a remarkable amount of money has been lost chasing this nonexistent ideal. Importantly, as Buffett and Munger state, the job of a money manager is not to sell stocks before markets decline and then jump back in before markets gain. That's just not possible, so attempts to do so reveal a lack of understanding about investing. Patient, long-term investors like Buffett and Munger ultimately take advantage of impatient, uninformed investors. The best long-term investment choices frequently don't feel like the best short-term choices.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Why are you reluctant to bring in your [CEO] successor now? Why not train him now?

[asked by Becky Quick - question from Irving Finster]

Buffett: Irving is a friend of mine. He's had no success writing to me on this for 30 or 40 years, so he wrote to Becky. If there were a good way to inject [the new person now] to make him a better CEO, I would, but the truth is, the candidates are running major businesses today. It wouldn't help to sit around [Berkshire's] headquarters. We could meet every hour, and I could say, "Here's what I'm thinking, what do you think?" I could throw him The Wall Street Journal. It's a waste of time—they are 100% ready right now. The biggest job is that they will have to develop relationships with [Berkshire's] managers, sellers of businesses, shareholders—different constituencies. Their biggest challenge will be to understand personalities. They have different batting styles, but they all hit very well. Charlie and I have worked together for decades, without constantly talking.

Munger: You're more qualified to be CEO by successfully running your own business than watching someone else do it his way. Many successful models are a lot like Berkshire—like Johnson & Johnson, decentralized.

Buffett: Most managers at Berkshire are doing what they want—running their businesses. We don't see an advantage in having a crown prince around. To name [the CEO] now could create problems.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Does Berkshire have a succession plan for Ajit Jain (the head of Berkshire's insurance operations)?

Buffett: You can't—it would be impossible to replace Ajit. We wouldn't try. We won't give as much latitude to his successor. Authority goes with the individual, not the position. In the insurance business, giving away your "pen" [underwriting authority] can do enormous damage. In 1980, Mutual of Omaha gave a pen to someone, and lost half their net worth. Ajit and I talk daily, because it's so interesting—like how many years can you insure Mike Tyson—but I'm not needed. We won't find a substitute for Ajit.

Munger: Invest in a business any fool can run, because someday a fool will. If it won't stand a little mismanagement, it's not much of a business. We're not looking for mismanagement, even if we can withstand it.

Buffett: We do not assign tasks to people beyond their capabilities. Ajit is a one-off situation.

- *Source: BRK Annual Meeting 2009 Bruni Notes*

- *URL:*
- *Time: 2009*

Ajit Jain is very important to National Indemnity. Do you expect National Indemnity's float to rise going forward? Does it have competitive advantages beyond Ajit?

WB: It has some advantages beyond Ajit, but he has maximized them. He has cadre of 30 people schooled in it, in such a way that would make the Jesuits look quite liberal in their methods. You can't imagine a more disciplined operation. It would be a HUGE loss to Berkshire if anything happened to Ajit. But the Reinsurance group would still be special, and act smartly and quickly. Every year I think our float has peaked. Now it is $60bn and we have Equitas which is in runoff. I was ready to quit at $20bn, but now over $60bn, and things keep happening. Berkshire has, in my view, become the premier insurance organization in world. I don't know how we could increase it significantly unless through some large acquisition – but there is nothing on horizon. We will have to fight to stay even from here. Various things could happen which would be valuable.

CM: I agree with you, and I have nothing to add.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Your opinion of Google's emulation of Berkshire's Owner's Manual?

I'm pleased that the fellows at Google were, they say, inspired by the Berkshire Owner's Manual, and that they think it's good for companies to communicate with shareholders. If you read it [the Google Owner's Manual], you know what they're like.

It's like writing a letter to your partner in a business, in which you'd say, "I'd like you to join me as a partner, I'd like you to invest your money, so here's the information I want you to have and how I will treat you…"

I like their prose, though that doesn't mean I agree with every idea. I hope more companies sign on for this.

[CM:: Most of the world doesn't in any way imitate Berkshire Hathaway. 19,500 Berkshire shareholders came [the announced attendance at this year's annual meeting], but we're the quirky few.

The Google guys are among the smartest in the country – it's always nice to be imitated by smart people.]

[CM:We think they're a lot smarter this week than last [because they imitated us]. [Laughter.]]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

What questions do the BRK audit committee ask the auditors?

[During the opening business-of-the-annual-meeting segment of the meeting, Buffett put four slides up, each with a question that the audit committee of Berkshire Hathaway asked the auditors, and the response. This was taken nearly word-for-word from his 2002 annual letter, so I've just reprinted this section from that letter below.]

If such questions were asked every year – or better yet, every quarter – there would be a lot fewer accounting problems… They should be asked and the answers should be put into the record. It would have a very helpful effect. It puts the auditors on the line. I've been on many boards and in retrospect many things went by that I wish the auditors had brought to my attention…I noticed that in Google's Owner's Manual, it said that if the numbers are lumpy when they come to us, they'll be lumpy when we report them to you.

Excerpt from 2002 Berkshire Hathaway annual letter:

The Audit Committee

Audit committees can't audit. Only a company's outside auditor can determine whether the earnings that a management purports to have made are suspect. Reforms that ignore this reality and that instead focus on the structure and charter of the audit committee will accomplish little.

As we've discussed, far too many managers have fudged their company's numbers in recent years, using both accounting and operational techniques that are typically legal but that nevertheless materially mislead investors. Frequently, auditors knew about these deceptions. Too often, however, they remained silent. The key job of the audit committee is simply to get the auditors to divulge what they know.

To do this job, the committee must make sure that the auditors worry more about misleading its members than about offending management. In recent years auditors have not felt that way. They have instead generally viewed the CEO, rather than the shareholders or directors, as their client. That has been a natural result of day-to-day working relationships and also of the auditors' understanding that, no matter what the book says, the CEO and CFO pay their fees and determine whether they are retained for both auditing and other work. The rules that have been recently instituted won't materially change this reality. What will break this cozy relationship is audit committees unequivocally putting auditors on the spot, making them understand they will become liable for major monetary penalties if they don't come forth with what they know or suspect.

In my opinion, audit committees can accomplish this goal by asking four questions of auditors, the answers to which should be recorded and reported to shareholders. These questions are:

- If the auditor were solely responsible for preparation of the company's financial statements, would they have in any way been prepared differently from the manner selected by management? This question should cover both material and nonmaterial differences. If the auditor would have done something differently, both management's argument and the auditor's response should be disclosed. The audit committee should then evaluate the facts.
- If the auditor were an investor, would he have received – in plain English – the information essential to his understanding the company's financial performance during the reporting period?

- Is the company following the same internal audit procedure that would be followed if the auditor himself were CEO? If not, what are the differences and why?
- Is the auditor aware of any actions – either accounting or operational – that have had the purpose and effect of moving revenues or expenses from one reporting period to another?

If the audit committee asks these questions, its composition – the focus of most reforms – is of minor importance. In addition, the procedure will save time and expense. When auditors are put on the spot, they will do their duty. If they are not put on the spot . . . well, we have seen the results of that.

The questions we have enumerated should be asked at least a week before an earnings report is released to the public. That timing will allow differences between the auditors and management to be aired with the committee and resolved. If the timing is tighter – if an earnings release is imminent when the auditors and committee interact – the committee will feel pressure to rubberstamp the prepared figures. Haste is the enemy of accuracy. My thinking, in fact, is that the SEC's recent shortening of reporting deadlines will hurt the quality of information that shareholders receive. Charlie and I believe that rule is a mistake and should be rescinded.

The primary advantage of our four questions is that they will act as a prophylactic. Once the auditors know that the audit committee will require them to affirmatively endorse, rather than merely acquiesce to, management's actions, they will resist misdoings early in the process, well before specious figures become embedded in the company's books. Fear of the plaintiff's bar will see to that.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Berkshire's board and corporate governance?

[CM: We're out of step. We don't feel the need to have directors from every diversity category and pay everyone

$100,000-$200,000 per year.

Our directors are all rich, own Berkshire stock, and don't have any company-provided Directors and Officers insurance coverage.

We've been waiting for our system to spread and we've been losing. (Laughter)]

The real issue is mediocrity – there are too many .240 hitters on boards. Businesses often settle for a notch or two above mediocrity – there are strong human instincts at work.

For many directors, the director's fees are an important part of their [total annual] compensation, and they want to be recommended for other boards, so this makes it difficult to arrange a rump meeting to say, "The guy at the end of the table [the CEO] is no good." This is mediocrity that is tough to combat.

We've been on boards and they can only tolerate a certain amount of obnoxiousness, so we have to ration it out. (Laughter) It's hard to overrule someone [the CEO] and we're likely to lose anyway. Occasionally we fire a bullet, but it often does no good.

We have real owners on our board – they bought it just like you. [In contrast,] the boards I've been on just hand me stock and stock options.

Independence is a state of mind. We think we have the best board in the country, but people who evaluate boards by a checklist disagree.

[CM: A director who gets $150,000 per year from a company and needs the money is not independent. [The new law requiring a majority of independent directors] is typical government intervention.]

I've been on 19 boards and I've never seen a director who needs the money oppose an acquisition or executive compensation. They just don't behave as if they own it.

[CM: Someone once said that no man who needs the salary that a politician receives should be allowed to hold office.]

One of our directors was asked to leave two compensation committees for having the temerity to question pay packages.

They're looking for Chihuahuas not Great Danes or Dobermans. (Laughter) I hope I'm not insulting any of my friends on compensation committees. (Laughter)

Munger: You're insulting the dogs. [The biggest laugh of the day.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[RE: Majority Voting and Corporate Governance]

Munger: I don't think it'll have any effect at all on the ethics in corporate boardrooms. There are fads and fashions. I don't think the troubles will be fixed by something like that.

Buffett: In the boardroom, it's partly a business situation and partly a social situation. The key is: Do they think like owners and, even if they do, do they understand enough about business that their decisions are any good? We've been on many boards and I've never seen any difference in behavior based on the nature of the votes that got them there. But I think you'd be blown away by the difference in savviness and whether people think like owners.

There are all these fashions on corporate governance, but the key job of the board is to hire the right CEO, keep him from overreaching, and exercise independent judgment on important acquisitions. Even smart CEOs are motivated by other than rational reasons when it comes to acquisitions. Directors have not done well in these three areas over time.

The only cure to better corporate governance is if very large shareholders zero in on these things. If they focus on other issues, they'll have fun and get in the papers, but won't make a difference. But if the largest shareholders say, "This compensation plan doesn't make any sense" and withhold their votes for directors, that will make a difference.

I just found out that some big institutions are even farming out their voting to someone else. I was amazed. They don't want to think like owners and we all pay the penalty for that.

To effect change, large shareholders – not a coalition of small ones – need to act.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Given you [Buffett and Munger] are Berkshire's sustainable competitive advantage, would you invest in Berkshire now?

Buffett: Our sustainable advantage is our deeply embedded culture, which would be hard to copy, and a different shareholder base—20% turnover versus 100% turnover in the S&P 500—and a unique offer to managers. I don't see any other company in the U.S. that can adopt our model in any way. It's a very, very long-lasting advantage. It's not just us anymore. I don't know how I'd copy it if I were elsewhere. People who want to join us won't have another choice.

Munger: Stated differently, a lot of corporations are run stupidly from headquarters, driving divisions to increase earnings every quarter. We don't do that. The stupidity of management practices in the rest of the corporate world will last long enough to give us an advantage well into the future.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What is the impact of Berkshire losing its AAA rating? What will it take to restore it?

Buffett: We won't regain it soon, because ratings agencies won't turn around that fast, even if warranted. It has very little material effect on our borrowing cost. I very much like having a AAA rating. We didn't think we would be downgraded. We lose some bragging rights in terms of our insurance business, but nobody in insurance ranks ahead of us. We're still an AAA in my mind. Committees don't change their minds quickly. We regard meeting our obligations as sacred. It's difficult for ratings agencies to quantify commitment of management. It [the downgrade] irritates me.

Munger: At least they showed a considerable independence. [laughter] Moody's next change will be in the opposite direction, because we deserve it, and they're smart.

Buffett: [When Charlie and I disagree], Charlie says, "In the end you'll see it my way, because you're smart and I'm right!" [laughter]

[Buffett continued with a discussion of how credit default swap (CDS) prices can be affected by factors other than perceived credit quality, but we don't feel confident enough of his exact wording to quote or paraphrase him - our notes: Buffett noted that the ratings agencies often cite CDS prices to support their actions, but CDS prices can be affected by non-credit factors. For example, suppose that Berkshire writes an equity put option. Berkshire collects the premium and establishes a liability on its balance sheet. The other side of the transaction (the put buyer) creates an asset. Then, both sides mark the option to market. If things move in the buyer's favor, they show a gain. However, the buyer's auditors urge them to buy protection for their gain by purchasing a Berkshire CDS, since the buyer's gain represents a potential receivable from Berkshire. If Berkshire writes a relatively large dollar amount of equity put contracts, the buying of Berkshire CDSs significantly increases—and this demand pushes Berkshire CDS prices higher, which to the casual observer would suggest that there's increased risk in Berkshire. Got that? The bottom line is that the price of Berkshire CDS contracts can go higher without any increased risk associated with the company.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Do you have a target rate of growth for Berkshire, given its size? Greater than 20% seems unlikely.

Buffett: It will be absolutely impossible to come anywhere near 20%. We hope to be a few percentage points better than the S&P 500. I used to say 10% better in the 1960s. We'll use book value as a proxy for intrinsic value, [as we've] measured that way for 40 years and will continue to measure that way. If we don't beat it at all, I'll feel like I haven't added anything.

Munger: In terms of the broader contribution to civilization, the best days of Berkshire are ahead. The future will be way better than the past.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Could you comment on union and other contracts at Berkshire subsidiaries?

Buffett: We don't have any. We're not big believers in contracts [when we buy businesses]. We don't want relationships that are based on contracts. We buy [businesses] based on retaining [the former owners'] passion for the business. The compensation of the top person at each company [Berkshire subsidiary] is my responsibility. We have contracts on bonuses. Some businesses are profitable, some not. We have different arrangements for different businesses. We don't try to hold people by contracts. Contracts wouldn't work.

Munger: Our model is a seamless web of trust, earned by both sides. The Hollywood model is contracts, but no trust.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What is the worst-case scenario for Berkshire's insurance business?

Munger: Even a catastrophe with a $2 – 3 billion loss would not be a disaster [to Berkshire]. It's a marvelous business.

Buffett: In a mega-catastrophe, at worst we'd pay 4 – 5% of the total [insurance] industry loss. We may be lower than that now, 3 – 4%. Katrina was close. There were total losses of $60 billion [for Katrina]. In a $100 billion catastrophe, we'd pay 3

– 4% of that. The worst situation would be if we ran into so much inflation that people expressed [such] outrage that we start nationalizing the insurance business. That would be a huge loss of an asset. It's not probable. If there's public outrage, politicians will do something when costs go way up on essential services.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Could Buffett share his attitude toward layoffs and job security at Berkshire subsidiaries?

Buffett: Business conditions can change dramatically. [If businesses] permanently contract, it leads to permanent layoffs. Sometimes it's temporary. GEICO will hire around 1,000. Some people resist layoffs, [but] if the business changes in a material way, you'd better change your business model or someone else will cause you to. You tend to do it a little late even. On balance, we hope to avoid businesses that have those problems, but [sometimes] there are no alternatives. In the textile business, we ultimately laid off everyone. Sometimes you're on the short end of creative destruction.

Munger: Some of our businesses have a shared-hardship model, but it's not always easy to do. Ben Franklin said, "It's hard for an empty sack to stand upright." Sometimes you have to amputate a limb to save a life.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What's the interview process for Berkshire managers?

Buffett: We hire people who typically have proved themselves already. We find people who love their business. [We ask ourselves,] will they feel the same the day after the deal? We have no retirement age. The toughest problem is when managers lose their abilities. That's the only part of my job I don't like.

Munger: We've been very slow every time on these.

Buffett: I love Berkshire. I go to work every day and am excited about it.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

You are giving a lot of BRK stock to the Gates Foundation each year and they are selling. Won't the foundation selling create downward pressure on the stock?

Buffett: There are 5 foundations that get money each year. I give 1.5% of outstanding shares annually. If they sell 1.5% annually, you have 1.5% of shares being sold annually. That's not a lot when you compare that to the daily sales on the NYSE. I never sell shares and will never sell one in my life. But only 1.5% should not move the price down in a year. By selling down my shares it has actually led to BRK having a better chance of being in the S&P 500 (as a result of the diminution of his concentrated holdings). If none of the stock had been given away there is no way to know where the stock would be--up or down--but the giveaways should not influence the stock price.

Munger: A stock distribution to aid charity is a non-event.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Managers are allowed to operate without interference with Omaha. What would

happen if BRK found illegal activity? Would you intervene?

Buffett: Absolutely, we have to jump in. We have a hotline. Sometimes we get direct letters. I want to hear about problems. Important transgressions have come to our attention – we encourage that. I skip over the bad breath complaints. Alleged bad behavior will get investigated. I believes we have an internal audit function that works for BRK. Every now and then some transgressions get reported and come right to me.

I send a letter every 2 years and asks each manager. A letter goes out every two years, it is 1.5 pages. It asks each managers who they would select to replace them if they died that night and the reasons why I should choose this person. I also remind them that we have all the money we need. We don't have a shred more of reputation than we need. It doesn't hurt to repeat Solomon story. If the only reason you are doing something is the other guy is doing it, then don't. I say to call me. Most realize that if they are thinking about calling me, it's too close a call and should be avoided. We can cure any problem if we hear about it soon enough, but if allowed to fester it worsens. With 260k people I hope we hear about them fast. We care very much to protect reputation of Berkshire. We have all the money in the world, but we don't have enough reputation.

Munger: Averaged out our reputation is good, and that is precious to us. We care more about reputation than business mistakes for sure. Protecting BRK's reputation is essential. In a sense, you people are part of culture. The ideal is not to make as much money as possible within legal limits. We celebrate wealth only when it is fairly won and wisely used. That culture pervades the place, and we think is very helpful to us.

- *Source: BRK Annual Meeting 2010 Boodell & Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

How is BRK ok with models used by its insurance companies after the widespread failure of models during the financial crisis? Are they different and/or safer than the ones that failed Wall Street?

WB: We run significant risks from earthquakes. Not sure how much in Q1 from Chile. We have 20% of SwissRe. Our peak risks are earthquakes and hurricanes, 2 biggest in frequency and severity. Risk is probably down from a few years ago. Not down because of diminished appetite, but because rates weren't attractive. If rates attractive, we would take on group of risks if something close to worst case was $5bil. We paid out $3bil in Katrina, over $2bil on 9/11. But none of this makes us uncomfortable.

CM: Our difference is that we deliberately seek out big losses occasionally. Everyone else avoids that. That is competitive advantage, a capacity to endure fluctuating annual results.

WB: People know what we do, they just don't want to do it. I think it comes close to permanent advantage. I felt no different losing $3b in Katrina. That is our game. Our edge gets wider every year. In insurance we are in business of taking other guys' desire to smooth earnings and in exchange take the lumps.

CM: WB is in a different position. Other CEOs can't look at mirror at end of year and say shareholders still love me. Amundsen, a famous businessman in Omaha – he wanted to own 100% of everything, so he could look in the mirror while shaving and say, "all my shareholders love me…"

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Please discuss some of the synergies among BRK companies and whether or not you encourage companies to do business with one another. e.g. At my local Dairy Queen, they don' t accept Amex, and they still sell Pepsi.

WB: There are about 6000 dairy queen outlets. Company operated number 70. So 99% are franchised. At DQ we don't control what the franchisees do. Most franchisees serve Coke, the enlightened ones. [laughter] It is entirely their business. It seems other franchise operations have more control, but DQ goes back before McDonalds, before Burger King, before all of them, back to 1930s. Agreements were done on old rules – which have less control now than others. You should keep asking for Coke, and maybe you can cause them to see the light. Synergies come at the operational level. We don't tell them to do business with each other. The whole idea of Berkshire is that managers are responsible for their businesses and we don't tell them what to do.

CM: You [the questioner] have accurately described the way it is, and the interesting thing is that we like it that way. Warren and I would want that if we were a manager.

WB: There is some merit to it -- if you tell people to work together, they do so only grudgingly.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

If one day I apply as manager to Berkshire company, what should I work on now, and what should I do to become your successor?

WB: Probably shoot me! Managers of our subsidiaries hire their own people. I make no decisions about who gets hired. They are responsible. There is the occasional resignation. We've had only 10-12 of those over 25 yrs. We have 21 people total at headquarters.

CM: There is no indication that we would be particularly good at it [hiring] either.

WB: I wasn't going to mention that. But when you find someone outstanding, boy do they jump out! To advance generally in an organization, you want to think and work like you would if you were the owner of the place.

- *Source: BRK Annual Meeting 2010 Boodell Notes*

- *URL:*
- *Time: 2010*

[back to the questions.]

You stated your policy about retaining earnings in the 1984 annual letter. Would a distribution be warranted based on 2005-2009 stock performance?

WB: What I wrote in 1984 [in the owner's manual on this issue] was not well thought out. I pointed out that we would have flunked test in early 1970s (1974?). Every dollar left in business right now has about $1.30 of market value. Any time stock market went down a lot over 5 yrs, we still would have looked bad. And if stock market was going up, we would have looked good. I think still intellectually honest – not quite the John Kerry response when he once said "I voted for this before I voted against it." We will continue to measure ourselves against this test. If we don't meet it, we should go somewhere else.

CM: I like people who parse through a long document, find an error, and rub my nose in it, especially your error Warren.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

[back to the questions.]

Can you comment on Berkshire's holdings? (2005)

We're at the lowest percentage of public holdings ever [relative to all of Berkshire's assets], except for when we were winding down [in the early 1970s].

We're not unhappy with our public holdings like Coke, Wells Fargo and Moody's, but would we buy more? Well, we're not, so there's your answer. But due to taxes, the size of our positions, etc., we're not selling either.

We're not in an attractive time. Munger: It's not a permanent state of affairs, but it's not going away.

We will still put large amounts of money to work at good rates, whereas now we're only able to invest small amounts – where small is still billions.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[back to the questions.]

Why don't you split the stock?

We have the best investors and the lowest turnover of any major company. Why? It's a self-selection process. People who say they're not interested in a stock that trades for thousands of dollars per share, simply for this reason, are probably not as intelligent or as in-sync as this group [referring to Berkshire's current shareholders]. It's a sign, a symptom.

By not splitting, we've helped attract the best shareholders – people who don't care if the stock is at $90,000 or $9.

[CM: I think the notion that liquidity of tradable common stock is a great contributor to capitalism is mostly twaddle. The liquidity gives us these crazy booms, so it has as many problems as virtues.

After the South Sea bubble, England banned tradable stocks and England did fine during this period. If you think liquidity is a great contributor to civilization, then you probably think all real estate in America, which is mostly illiquid, is a problem.]

Berkshire trades $50 million per day, so very few people will have problem selling.

[CM:: But we're trying to create more people who have the problem of owning stock worth so much that liquidity is an issue.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[back to the questions.]

Berkshire has bought a lot of shares in the last twelve months of listed companies (2008). Do you expect returns to be between 7-10% over many years? Well below your achievements in the past.

WB: Yes. We would be very happy if we could buy pre-tax returns of 10%, dividends included. We would probably settle for a little less than that. Berkshire's re-turns will be less, no question, in the future than in the past. We operate now in a universe of stocks with market caps of at least $10 billion, but really $50 billion and up in order to have an impact. This universe is not as profitable. If we find one with a $10 billion market cap, a 5% position is $500 million. If it doubles, we make $325 million; this is less than 2/10ths of 1% for Berkshire. We have found things to do from time to time to make money. They are nice, but they don't move the needle much at Berkshire. Anyone who expects us to replicate the past should sell their stock. We'll get decent returns, but not indecent returns.

CM: You can take Warren's promises to the bank. We are happy making money at a lower rate in the future, and we suggest you adopt the same attitude. You may have better things to do with your money than buying Berkshire. You will find things that are more intelligent, if you spend the time. We don't think it is the most attractive investment in the world. We like buying good-sized to very large businesses, with good management. It is a nice formula; it should work well over time.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

How do U.S. government guarantees hurt Berkshire competitively?

Buffett: It hurts us that competitors can borrow, subsidized by the government— especially at Clayton Homes. The raw materials [funding] cost us more than a bank that's in trouble. There are the blessed with government guarantees and those that are not. We have no guarantees. Except for our utility business and Clayton, we don't borrow much money. Our $58 billion of float costs us less than zero, which is less than Wells Fargo's 1.12% cost of funds.

Munger: Of course we're at a funding disadvantage, but we're not regulated like a bank.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Why shouldn't shareholders sell their Berkshire shares and buy what you're buying?

Buffett: The meeting gets written up a lot. Outstanding Investor Digest [does a good job]. There is something to be gained by personal contact. I like our partners to show up and see our products. [In terms of buying what we're buying], others can't buy with free float, although they may have tax advantages we don't have. We don't quarrel with those who buy what we buy. You can piggyback, but you can't buy the [whole] businesses we do.

Munger: It's generally quite smart to copy very successful investors.

Buffett: I did the same thing when I was young.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What safeguards are in place against breaking up Berkshire?

WB: My stock will be sold over a period of years after my death. That takes a lot of time. Berkshire is a very large company and will get bigger over time, so it would be very difficult for someone to do a takeover of that size. It can't happen at all until I die [since there are a lot of votes concentrated until then]. I told my lawyer I wanted a ten-year distribution period—to make sure my estate lasts quite a while, to which my lawyer said that was like telling his teenage son to have a normal sex life. If we do decent compounding, we'll be one of the largest companies in the USA. It will be difficult to break us up.

CM: Warren doesn't plan to leave early. He wants people to say at his funeral, "That is the oldest looking corpse I've ever seen."

WB: I am unlikely to change my views on that subject. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

How do you stop Berkshire subsidiaries hoarding capital?

Berkshire wants the capital in the most logical place. Berkshire is a tax efficient way to move money from business to business, and we can redeploy capital in places that need them. Most of the managers of companies we own are already independently rich. They want to work, but don't have to. They don't horde capital they don't need.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

What do you see as the net effect of government interventions on Berkshire's business? Will there be new rules of the game?

Munger: It's clear there will be new rules, but it's not clear what the new rules will be. There's been awesome lobbying from financial firms. Countering this lobbying pressure, there's a climate of hatred in Washington D.C. at the financial industry that you could cut with a knife—it's that thick. I don't think you can predict. Berkshire has to adapt to whatever happens. If I had all the power, there would be a lot of government intervention.

Buffett: New rules will affect us one way or another. The biggest pressure is that the American public doesn't like bankers now. They were worried about their money market funds not that long ago. Nobody's going to jail, and that makes people mad. It's much more fun if someone's going to jail or tortured in some public fashion. People are mad at government or bankers, and you know where government wants that to go. The House 90% tax on AIG bonuses was uncontrolled fury. We'll adapt to [the situation]. I won't like it.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

Does Berkshire hedge its currency exposure?

Berkshire doesn't hedge its currency exposure. Why spend money to hedge a 50:50 proposition, i.e. a random event.

- *Source: BRK Annual Meeting 1994*
- *URL:*
- *Time: 1994*

back to the questions.

What is your level of involvement when the company has an ethical dilemma? For example, Fruit of the Loom's competitors have sweatshops.

We let managers run businesses, and their standards over the years have been extraordinary. I am very happy turning over the keys to the financial and business performance. I write them a letter every two years, and I ask them to send a letter with their successor. I also tell them we have all the money we need. We never want to trade reputation for money. Not only do they behave to conform to the law, but they act as if there was going to be a story in the local paper in the morning written by an intelligent, investigative reporter. There are no budgets. We have no incentives to cause people to do anything or push people to play games.

CM: We have no rule against foreign plants. We don't favor foreign plants; we just do what makes sense. The US was making one billion pairs of shoes per year, 30 years ago. We tried to compete with a great brand and workmanship. We found out it wouldn't work against shoes produced in China. There are one billion pairs of shoes now in the USA but they're all produced outside of the US. Some of those factories don't have the same norms. We won't tell the world how to run a business. We have standards, but not everyone's are the same.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Can you comment on the protests by Salmon Fisherman of PacifiCorp's Dams on the Klamath River?

Our position on it is quite simple: FERC [the Federal Energy Regulatory Commission] and other regulatory commissions have 27 different proposals in front of them from different interest groups. Some people have been hurt by what you describe, while others – several hundred thousand of them – like the cheap power. FERC will listen to the positions and make a decision. We are a public utility and we will do exactly what the people who regulate us say. It's entirely a question for FERC and the state commissions.

We will not make the determination in the end. It will be made by FERC – the same as with coal, gas or wind generation. Any time you get into public-utility plants, some people are unhappy with the decisions because no one wants a power plant in their yard. People often aren't happy with wind generation towers. But the world wants more electricity. So we will do exactly what FERC and the state commissions decide. As I said, there are 27 groups and they will hear the arguments of all 27 and come up with the public policy decision. It takes a lot of time.

I'm in a peculiar position on this, because when we bought PacifiCorp, Walter Scott and I signed affidavits saying, "I agree that we will not exercise decisions except those ministerial in nature." We are recused from voting. This was part of the order that allowed MidAmerican to buy PacifiCorp. The acquisition went through in record time, by the way, because MidAmerican has such as a great track record of being responsive to regulators.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Three questions about the Klamath River dams in Oregon, owned by PacifiCorp. Will you make PacifiCorp accountable? [Problem of green/blue algae, polluting the water and killing the salmon]]

WB: The first dam was built in 1907. We are prohibited from commenting on this. There are strong disagreements.

DAVID SOKOL [Chairman of MidAmerican Energy, the Berkshire subsidiary that owns PacifiCorp]: It was inappropriate for Mr. Buffett to respond. These four dams on the Klamath River, there are a whole series of issues in the federal regulatory re-licensing process. It will be ongoing for eight years. It won't culminate for another six years. There are twenty-eight various parties that are party to a discussion about what should or should not happen with these assets. Of these twenty-eight parties, there are four different directions that this process could go. We will be pleased to find a resolution. It is up to the regulatory commission, state legislators, and then each regulator in each state. We are working constructively with each of the parties. We have met with each of the parties, and hope we find an acceptable compromise.

WB: Regulators will deal with those issues. When government gets involved in eminent domain, there are always tradeoffs. Overall you have people with widely different interests. A big interest is the cost of electricity. Every commission that makes a decision on coal vs. gas makes a tradeoff, and tradeoffs are partly an economic cost and partly other issues. FERC [Federal Energy Regulatory Commission] will listen to everyone. They have to listen to everyone. We will do exactly what they say. We follow the dictates of regulatory bodies. They give us a fair return. From the standpoint of profitability, it is neutral. Society will make the decision.

DS: We distributed a study that found an accumulation of bio-algae and microcystin. There are 27 other lakes in Oregon with that type of blue-green algae. It is created from lakes that have a high abundance of nutrients. Klamath is hyper-eutrophic — there's a great abundance of algae and nutrients. There are 4 reservoirs. FERC does take it into account. Some do not call for the removal of the dam. All the parties will need to come to agreement.

WB: The net benefits vs. losses must be weighed. There are lots of competing ideas and desires in a large society. It is up to the government to sort it out. People are coming to different conclusions about tradeoffs, and generally those are at the state level. The Oregon Public Utility Commission, I am sure, is aware of the issue. They have to consider the best way to generate electricity for the citizens of Oregon.

DS: We want to clarify that we are not polluting the water. We recognize the various issues. We have a 50 year FERC license. A societal answer, hopefully, will be reached.

CM: I note how refreshing it is to find people addressing a pollution problem that has nothing to do with burning carbon.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

The Market

Views on the market and where it's going?

I have no idea were the market is going to go. I prefer it going down. But my preferences have nothing to do with it. The market knows nothing about my feelings. That is one of the first things you have to learn about a stock. You buy 100 shares of General Motors (GM). Now all of a sudden you have this feeling about GM. It goes down, you may be mad at it. You may say, "Well, if it just goes up for what I paid for it, my life will be wonderful again." Or if it goes up, you may say how smart you were and how you and GM have this love affair. You have got all these feelings. The stock doesn't know you own it.

The stock just sits there; it doesn't care what you paid or the fact that you own it. Any feeling I have about the market is not reciprocated. I mean it is the ultimate cold shoulder we are talking about here. Practically anybody in this room is probably more likely to be a net buyer of stocks over the next ten years than they are a net seller, so everyone of you should prefer lower prices. If you are a net eater of hamburger over the next ten years, you want hamburger to go down unless you are a cattle producer. If you are going to be a buyer of Coca-Cola and you don't own Coke stock, you hope the price of Coke goes down. You are looking for it to be on sale this weekend at your Supermarket. You want it to be down on the weekends not up on the weekends when you tend the Supermarket.

The NYSE is one big supermarket of companies. And you are going to be buying stocks, what you want to have happen? You want to have those stocks go down, way down; you will make better buys then. Later on twenty or thirty years from now when you are in a period when you are dis-saving, or when your heirs dis-save for you, then you may care about higher prices. There is Chapter 8 in Graham's Intelligent Investor about the attitude toward stock market fluctuations, that and Chapter 20 on the Margin of Safety are the two most important essays ever written on investing as far as I am concerned. Because when I read Chapter 8 when I was 19, I figured out what I just said but it is obvious, but I didn't figure it out myself. It was explained to me. I probably would have gone another 100 years and still thought it was good when my stocks were going up. We want things to go down, but I have no idea what the stock market is going to do. I never do and I never will. It is not something I think about at all.

When it goes down, I look harder at what I might buy that day because I know there is more likely to be some merchandise there to use my money effectively in.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

WB: I could expand on that question, but I couldn't answer it. Charlie and I haven't the faintest idea where it goes next week, next month or next year. We are not in that business. It isn't our game. We see thousands of companies priced every day. We ignore 99% of what we see. Every now and then, we find an attractive price for a business. When we buy it, we would be happy if the market was closed for a few years; you wouldn't get a price quote daily if you owned a farm. We look at expected yield, cost of taxes. If you buy a farm, you would look at the cost of fertilizers, what a farm produces relative to the purchase price, price per acre, production per acre, etc. We make judgments.

CM: Nothing to add. WB: He's been practicing for weeks. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[Q - In 2008 you highly recommended buying US stocks. What is your opinion on market going forward? What is reasonable rate of return?]

WB: I write articles on general level of market itself rarely, only 4 or 5 times in forty years. It turned out I was pretty premature in Oct 2008. But I felt it would be way better to own bonds or cash. I thought I would be eventually alright. I have no idea what the stock market will do this week or next year. I do think I'd rather own equities than cash or 20yr bond over the long term. This is partly because I am unenthusiastic on alternatives. I think there will be a modest positive real return over time.

CM: Equities are best of a bad lot of available opportunities. I think you are right, and people should get used to ordinary real returns – not exciting.

WB: We like owning businesses. They do beat holding cash or 5, 10 or 20yr bonds.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

[Q -Is there a bear market coming?]

Humans are still made up of the same psychological makeup, and opportunities will always present themselves. All these people have not gotten more rational. They are moved by fear and greed. But I'm never afraid of what I am doing.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Opinion of forecasts?

[CM: People have always had this craving to have someone tell them the future. Long ago, kings would hire people to read sheep guts. There's always been a market for people who pretend to know the future. Listening to today's forecasters is just as crazy as when the king hired the guy to look at the sheep guts. It happens over and over and over.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Comment on the 1998 market?

In 1998, there were incredible opportunities. Just like today, there were a lot of smart people with 150 IQs running around with lots of money, but there was a panic. For example, there was a 30 basis point difference in the yields of on-the-run and off-the-run 30-year Treasuries. Literally, a 29 1/2- year traded 30 basis points higher than a 30-year because of the slight liquidity difference. You could have made a lot going long one and short the other. You wouldn’t have thought this kind of thing was possible, but it happened.

The high-yield market went crazy as well. In the span of only 14 months, you had yields go from 25%-60% to 7%. [Buffett put up the following chart:]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

Do you think the current rally is for real?

What's going to happen tomorrow, huh? Let me give you an illustration. I bought my first stock in 1942. I was 11. I had been dillydallying up until then. I got serious. What do you think the best year for the market has been since 1942? Best calendar year from 1942 to the present time. Well, there's no reason for you to know the answer. The answer is 1954. In 1954, the Dow ... dividends was up 50%. Now if you look at 1954, we were in a recession a good bit of that time. The recession started in July of '53. Unemployment peaked in September of '54. So until November of '54 you hadn't seen an uptick in the employment figure. And the unemployment figure more than doubled during that period. It was the best year there was for the market. So it's a terrible mistake to look at what's going on in the economy today and then decide whether to buy or sell stocks based on it. You should decide whether to buy or sell stocks based on how much you're getting for your money, long-term value you're getting for your money at any given time. And next week doesn't make any difference because next week, next week is going to be a week further away. And the important thing is to have the right long-term outlook, evaluate the businesses you are buying. And then a terrible market or a terrible economy is your friend. I don't care, in making a purchase of the Burlington Northern, I don't care whether next week, or next month or even next year there is a big revival in car loadings or any of that sort of thing. A period like this gives me a chance to do things. It's silly to wait. I wrote an article. If you wait until you see the robin, spring will be over.

- *Source: Buffett & Gates at Columbia Business School*
- *URL:*
- *Time: November 12th 2009*

[In response to a shareholder expressing the many reasons why he is concerned about the future outlook for the economy and the market, Buffett replied:]

I would say that at any given point in history, including when stocks were the cheapest, you could have found an equally impressive list of negatives. In '74, you could have written down all kinds of things that would show the future would be terrible.

We don't pay any attention to this kind of thing. Our underlying premise is that this country will do very well and that businesses will do very well. We used nuclear bombs, endured the cold war, etc., but over time the opportunities have won out over the problems. I expect this will continue, barring use [against us of] weapons of mass destruction – it would be hard for businesses to win out over this.

Going back to '59, I can't think of any discussions Charlie and I have had in which we've passed on something because of a view on macro conditions. It won't be the economy that will do in investors; it will be investors themselves. If you'd just owned stocks over time, you'd do fine. We're unaffected by the variables that you mentioned. Show us a good business tomorrow and we'll jump.

[CM: We wouldn't be surprised if professionally managed money in the US will have unimpressive returns relative to the high returns we had until three years ago.

Our expectations were more modest than most three years ago [see Buffett's Fortune article, Mr. Buffett on the Stock Market, 11/99]. We didn't project the end of the world, but said anyone who thought they could sit at home and day trade to double digit returns was living in a fool's paradise. It's hard to understand how people could believe such things. To some extent, they're sold these beliefs.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

[back to the questions.](#)

What do you think of the current market? (2000)

Can see anything in markets. Don't see any cases of incredible under valuation, if we did find it they probably will have been bought out.

[CM: Present time is a very unusual period. Residential real estate and common stock value grew so quickly.]

Company's that themselves couldn't borrow 100 million and is worth billions. Most extreme time period, even including the 1920's.

[CM: I think it's the most extreme period since modern capitalism, the 30's created worst depression in 600 years. This time period is almost as extreme as 30's but in a different direction.]

Doesn't make it easy to predict an outcome. No question in last year the ability to monetize shareholder ignorance has been exceeded.

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

Regardless of the market, I will keep buying businesses. We like low prices.

We're not good at forecasting markets. Charlie and I spend no time thinking about where the market's going. We do know when we're getting good value [when we're buying a stock or business].

There are always going to be some good and bad things happening.

I've seen more people lose more money by getting focused too much on one factor. We've never not bought something due to macroeconomic concerns.

Very infrequently you can say something intelligent about the market as a whole – when circumstances are so extreme that you predict the next 5-10 years with some degree of certainty. This was the case in 1969 and 1974. But most of the time, we're in some in-between zone.

Obviously you can get more for your money now than in 1999 when I wrote that Fortune article ("Mr. Buffett on the Stock Market"). I knew I'd be right.

If I had to make a choice today between long-term bonds yielding 4.5% vs. equities over the next 20 years, I'd prefer equities. But people who expect 6-7% after-tax or double digits [pre-tax] and think they can do it or hire someone else to do it will likely be disappointed.

I don't think we're in bubble times or bargain times.

I think you'll get a chance to do something screamingly intelligent within a few years, maybe much sooner, relative to current choices.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

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Mr. Market is valuing Dow Jones at about 7000, and the S&P at about than 800. What is a fair valuation? (1997)

If you believe that American businesses in aggregate can earn the kind of returns they have been earning in the past couple of years, and you postulate no change in interest rates, you can justify 7000 on the Dow and 800 on the S&P. Now, if interest rates go higher, the valuation goes down automatically. And, more importantly, if the returns on equity of American industry, which are at historic highs, and which classical economics tells you would be hard to maintain--if those returns go down, that also would pull it down.

I'll give you a little quiz: What two years has the Dow had the greatest overall gain? The two years in the 1900s are 1933, which most of you don't think of as a banner year, and 1954, and in both of those years the Dow was up over 50%, counting dividends. In March of 1955, because of the fact that the Dow had gone up, they decided to have Congressional hearings about it (laughter), and my boss Ben Graham was called down to testify, and Ben's opening comments about the market at that time were, "The market looks high, it is high, but it's not as high as it looks." Which brings about the current situation--the market certainly looks high, but there have been huge changes in earnings and return on equity and you've had this big move in interest rates. Now those are underlying fundamentals that have powered a huge bull market. After a while, people get captivated simply by the notion of rising prices without going back to the underlying rationale and that's when you get very dangerous conditions in terms of possible developments. I have no idea where the markets will go, but you have the kind of conditions that could cause real excesses, just like you had excesses in 1973-74 in the other direction, when you could buy businesses for 20 cents on the dollar. People behave in extreme ways in markets and over time that's very good for people who keep their heads.

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: 1997*

back to the questions.

The S&P 500 has a return on equity of 22%, compared with a 12-13% average for corporate America over the past decade. How did we get to this point of extraordinary profitability? and is it sustainable?

22% returns are sustainable in a world where the long-term interest rates are 7% and where the capability of saving large amounts in the economy are quite dramatic. You could just think that there would be some sort of leveling effect between 7 and 22, that as savings got directed within the economy, and as the competitive forces operate that we've been taught will operate over time, will come into play, but I've been wrong on that subject. Let's say you have a 22% perpetual bond, and let's say a third of that coupon would be paid out. So, a bond with a 22% coupon, and say 7% is paid out, being the dividend payout on the S&P we'll say, and the other 15% is reinvested in more 22% bonds with similar characteristics. Now what's that instrument worth on a present value basis? A lot of money. In fact, it's worth so much that it becomes a mathematical fallacy at some point, because when the compound rate becomes higher than the discount rate you get infinity, and that's a concept we like to think about around Berkshire though we may not attain it. There's a book called The Petersburg Paradox and the Growth Stock Fallacy by David Durant, written about 25 years ago, and it gets into this bit where the growth rate is higher than the discount rate, and it shouldn't work for an extended period of time. Charlie?

[CM: I think a couple of things contributed to this phenomenon that we so carefully mispredicted. Number one, it became very fashionable for corporations to buy in shares, and I think that we helped in a very small way to bring on that. I think that was a plus in terms of corporate decision making. The other thing that happened is that the anti-trust administration got way more lenient in allowing people to buy competitors. And I think that those two factors helped raise returns on capital in the United States, but you wouldn't think that could go on forever. What 15% per annum compounded will do is grow way faster than the economy can grow, way faster than aggregate profits can grow over the long haul ... I don't think we've reached a new order of things where the laws of mathematics have been repealed ... All of you should be aware of this, because all the people who are professional sellers of investment advice and brokerage services, etc., etc., have an immense vested interest in believing that things that can't be true, are true. And not only that, they've been selected in a Darwinian process to have formidable sales skills and large incomes. (laughter) That makes it dangerous for the rest of us.]

And you've been selected to be the recipients of their advice. (more laughter)

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: 1997*

[Q - Are corporate profit levels sustainable?]

Corporate profits as a percentage of GDP are at a record. I've been amazed. After being in a range for decades, it's jumped up. I'd have to look at a chart, but other than maybe a year after World War II, I think there have only been two or three years in the past 75 where corporate profits have been as high [as they are today]. I would not think it would be sustainable. When they get up to 8% or more of GDP, that's high, but so far there's been no reaction like higher taxes.

You have lots of businesses earning 20% on tangible equity in a world where corporate bonds are yielding 4-5%. That's astonishing. If you read a book, it would say it's not possible. This is high, which means someone else's share is going down, namely labor's. Does it become a political issue? Congress has power to change this very quickly. Corporate tax rates used to be 35%, but now many companies are paying only 20%.

Corporate America is living in a great time. History shows this is not sustainable. I would imagine that it will not be.

Munger: A lot of profits are not in manufacturing or retailing, but in financial sectors. There's been a huge flow of profits to banks and investment banks. That has no precedent. I don't think it's ever been as extreme as it is now.

Buffett: We've invested in and owned banks. If 20 years ago you'd asked me whether it was possible, in a world of 4.75% bonds, that countless banks would earn 20%+ returns on tangible equity, I'd have said no. In part this is due to leverage. A 1.5% return on assets leveraged 15 times is a 22.5% return on equity. But even so, you'd think once everyone was doing it, return on assets would drop to 1%, but it hasn't happened yet.

Munger: Some of this is due to consumer credit, which has been pushed to extremes. Other countries that have done this have suffered bad consequences – South Korea, for example, really suffered for two or three years. I don't think this is a time to swing for the fences.

Buffett: In South Korea, it produced some of the cheapest stock prices I've ever seen.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

Back in the Sixties, you disbanded the Buffett Partnership when you perceived the market to be overvalued. If you had only 100 partners in Berkshire Hathaway, would you disband it? (1999)

If I were limited to only marketable securities investments, I’d probably put it out to the partners to decide what they’d want to do. But we own many wonderful businesses, so we’re not in exactly the same position. In those days, the expectations had been raised so much, I felt tremendous internal pressure to keep it up; I didn’t want to fail delivering, so I folded it up.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

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Management

What are the first things you look for in a management team?

Well, what do you look for in a girl? Seriously, you look for the logical things - passion, an interest in running the business, honesty. Such as, do they love the business, or do they love the money? This is the first filter. I mean real passion; Mrs. B ran Nebraska Furniture Mart until she died at the age of 103 - that's passion. If temperament is the most important personal asset in managing money, in business, it's passion. Secondarily, if you've been doing it a while, you get to know how to do it. But obviously no management team is perfect, so you're often stuck making a judgment call. You don't want to wait forever to find the perfect team. Incidentally, a friend of mine spent twenty years looking for the perfect woman; unfortunately, when he found her he discovered that she was looking for the perfect man.

- *Source: 2005 Tuck School of Business Trip to Omaha*

- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

A shareholder asked how the pair assesses managers at companies in which they invest. Buffett informed the crowd that □“a really good business doesn□’t need good management - and a poor business can□’t do well no matter how good management a management is. There are enormous differences in the talent of American businesses. The Fortune 500 management doesn□’t get picked like Olympic team athletes. In some cases, it□’s fairly easy to pick out a good management. We think a .350 hitter will continue to be one; we don□’t believe the .127 hitter who says, hey I□’m different because I□’ve got a new bat. In business, those are often the managements who say they□’ve hired consultants. Once we see ability, we like to see how they treat their shareholders. Tom Murphy is a good example of a great manager.□

- *Source: BRK Annual Meeting 1996*
- *URL:*
- *Time: 1996*

Buffett thinks there are two main factors in assessing management:

- How have their results been?
- How do they treat the company's shareholders? Look also at how management treats themselves relative to the shareholder by reading the proxy circular.

Buffett said that he advocates "finding the 0.400 batters, and letting them swing".

Buffett later went on to say that one of the two or three most important things a Chief Executive Officer does is to allocate capital (i.e., invest money - either retained earnings or new outside capital). Yet few CEO's are trained for capital allocation because they rose through other streams in the business such as operations, sales or finance. Referring still to capital allocation, Buffett said most CEO's, when they get the top job, are "like a concert pianist arriving at Carnegie Hall - only to be handed a violin".

Often CEOs who are inexperienced in the field of capital allocation will rely on so called "experts" Buffett sees this as extremely dangerous.

- *Source: BRK Annual Meeting 1994*
- *URL:*
- *Time: 1994*

[Q: What do you look for in a manager?]

We look for managers that have a passion for their business. We've had terrific luck with entrepreneurs who love their businesses like I love Berkshire. They'll tell me to butt out if I'm going to screw it up. They are part of Berkshire, but guard their businesses jealousy.

We got a book from an investment bank from someone who bought a business a few years ago [and now wanted to sell it]. The business was a piece of meat to them. What are the odds that they didn't doctor the books?

[I look for people who] have a lot of love for their business. There can't be a company in the country, if you could measure passion for the business, no-one would come close [to Berkshire].

[CM: What matters most: passion or competence that was born in? Berkshire is full of people who have a peculiar passion for their own business. I would argue passion is more important than brain power.]

By the time they get to us, if they didn't have brainpower, they wouldn't have gotten to us. We're not going to see an incompetent but passionate manager -- those got weeded out a long time ago. But I do have to weed out a manager who just wants to cash out.

We see lots of businesses that play games with their accounting and just want to cash out.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

Almost everything we learn is from public documents. I read Jim Clayton's book, for example. There is adequate information out there to evaluate businesses. We do not find it particularly helpful to talk to managements. Often managements want to come to Omaha to talk, and they come up with all sorts of reasons, but what they really hope is that we become interested in their stock. That never works. The numbers tell us a lot more than the managements. We don't give a hoot about anyone's projections. We don't want even want to hear about it.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

It would be tough to evaluate a class of MBAs and pick which ones would prove to be the best managers, just like it would be tough to pick the best golfer by watching them hit on the practice range.

We haven't tried to evaluate, before they have a record, who will be superstar managers. Instead, we find people who've batted .350 for 10-50 years. We just assume we won't screw it up by hiring them. We take people who play the game very well and allow them to play.

I recall a study that correlated business success with the age at which a manager started. It turns out that those who started young did best. Of course, if you work with what you have, you can develop over time, but a lot of it is wiring – I've come to believe more so than I did 4-5 years ago. I've never heard Charlie say anything dumb about business – except when he disagrees with me. (Laughter) And I've never heard [GEICO CEO] Tony Nicely say anything dumb about business, ever.

[CM: Part of it is intelligence, partly temperament. Rick Guerin, for example, wanted to be rich, he was smart and had the right approach [so I knew he would be very successful]]

It's interesting to think about the odds that the NCAA basketball Final Four will be cancelled [referring to his comment elsewhere that Berkshire had written a $75 million policy on the Final Four being cancelled]. Some people like thinking about this. My dad wouldn't let me be a bookie, so I went into investing.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

back to the questions.

What are three traits of successful managers?

Passion is the number one thing that I look for in a manager. IQ is not really that important. They need to be able to work well with others and the ability to get people to do what you want them to do. I'd say intelligence, energy, integrity. If you don't have the last one, the first two will kill you. All you have is a crook who works hard. If a person doesn't have integrity, you want them dumb and lazy.

If you could put 10% of your future earnings on one of your classmates, you would pick the one that's most effective at working with people. These are qualities that are elective. If you could pick one to sell short, it would be the person that no one wants to work with. You can elect to be the kind of person you want to be. Look at those qualities of the two people you've selected (one long and one short). They're all qualities that you possess. It's like marriage. If you want a marriage that's going to last, look for someone with low expectations. Don't keep score. Keeping score doesn't build organizations, homes, etc. I have never had one fight with Charlie. When I took over Solomon I had to pick the best person to run it. I interviewed 12 people for 15 minutes each and I asked myself, "Who would I go into a foxhole with?" I never look at grades or where you went to school. When I picked Deryck Maughan, he never asked me about pay or options or indemnity. He went to work.

Chains of habit are too light to be felt until they're too heavy to be broken. In terms of picking people how do you lead your life in a way that I'd pick you?

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

The way to get a reputation for being a good businessman is to buy a good business.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

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Our students are always interested in knowing what you look for when you hire someone? What specific qualities do you seek?

You look for three things, you look for intelligence, you look for energy and you look for integrity. You don't need to be brilliant, just reasonably intelligent, Ray Kroc, for example, has good intelligence, which he combined with good business principles and passion for business and a passion for his particular business. Every business student you have has the requisite intelligence and requisite energy. Integrity is not hard wired into your DNA. A student at that age can pretty much decide what kind a person they are going to be at sixty. If they don't have integrity, they never will. The chains of habit are sometimes too heavy to be broken. Students can forge their own chains. Just pick a person to admire and ask why you admire them, usually it is because they are generous, decent, kind people, and those are the kind of people to emulate.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

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Machiavelli said that a man could be feared and loved. But one might want to be more feared than loved. Do you agree with this? Has there ever been a situation where you had to be more feared than loved?

I don't believe in fear as a manager. Ben Graham, Don Keough, and my dad are the people I have worked for and they never tried to get people to respond by fear. Certain industries may be conducive – platoon operators maybe – but even then, if you turn back and desert your buddies...I don't operate like that. I don't like this life. Probably certain circumstances call for it: operate this way for a policeman. I believe the most powerful force is love and that is the most effective way of dealing with people. I would not want to live a life where people are afraid of me. People don't operate well under fear. Some circumstances where mutually assured destruction is the end result, fear is good. But not at Berkshire Hathaway, love is way better to operate. By the way, how did Machiavelli do? There is no religion of Machiavelli 500 years later, is there?

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

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Mr. Buffett, it has been well documented that you don't manage your managers. Do you possess a strong intuition about people or do you have a process when you evaluate the management of companies that you are looking to purchase?

Good question. The question I ask is will they still work after they have sold their business? Do they love the money or the business? If it's the business, then we have a deal. If it's the money, that's ok, it's just not what we are looking for. I don't have to identify all of the ten's out there; I just have to make sure the ones I make deals with are tens. I can't look at the class and say, "You're a 6.5. You're an 8." I just need to find a few 10s. Do I have an intuition when judging a business owner? Sometimes. People give themselves away; I don't know what it is. We don't have any contracts at Berkshire; people stay because they have a passion for their business and I don't want to screw that up. Not much changes at 65 years old. I have 40 CEO's working for companies owned by Berkshire. Since 1965, not one of them has left Berkshire Hathaway. If I told Lou Simpson of Geico to be at the office at 9am and he could only get one hour for lunch, he would leave.

I don’t need to identify every ten out there, just the ones we invest in.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

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If two people had the same knowledge base but one had two-years experience and one had ten-years experience, which one would do a better job?

[CM: The scale of experience matters.]

One of the things that would be helpful for the person with ten-years experience would be the ability to construct models on observations, and the ten-year veteran would have more observations than the two-year.

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

back to the questions.

Any advice for spotting crooked managements?

[CM: Bernie Ebbers and Ken Lay were caricatures – they were easy to spot. They were almost psychopaths. But it’s much harder to spot problems at companies like Royal Dutch [Shell].]

[Throwing up his hands] Charlie and I would not have spotted the problems at Royal Dutch.

But we don’t learn because I’d still expect that Exxon’s figures are fair.

In the late 1990s, one business leader after another was cutting corners. They sink faster to a lower prevailing morality than rise to a higher prevailing morality, but they still generally follow the crowd.

[CM: I want to make an apology. Last night, referring to some of our modern business tycoons – specifically, Armand Hammer – I said that when they're talking, they're lying, and when they're quiet, they're stealing. This wasn't my witticism; it was used [long ago] to describe the robber barons.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

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What qualities in managers set them apart as great leaders, in essence, where do you find the right balance between "hard" and "soft" skills?

We have 45 managers. Some of them we communicate with once a year, some once a month, some everyday. I usually have dinner with the Blumkins every month, and we go on vacation, because we're friends. What we look for in managers is a passion for the business. They usually come to us. I've never bought from a financial seller. We can't run the business so I am counting on them to behave well; we have very little in the form of contracts. The business needs to continue just the same after I hand them the check as before. My big question is whether he will still get up at 6 AM just the same with $500 million, and continue to send money toOmaha. I have to look them in the eye and decide whether they love the business or they love the money. It's fine if they love the money, but they have to love the business more. Why do I come in at 7 every morning, can't wait to get to work. It's because I get to paint my own painting and I like applause.

We bought a jeweler, Ben Bridge. It was a 4th generation company, with over 100 stores. They were only interested in selling to us. The family didn't want to sell to others, the employees didn't want it. I never met him. He didn't want to sell either, but the family needed it.

At Borsheims we have a woman from Zimbabwe. She didn't even have the benefit of an MBA. We didn't look at a resume, or grades, or HR recommendations, but were looking for passion and we'll pay fairly because we don't want the resent that comes with unfairness. We want people that will work regardless.

I got a fax from Pete at Forest River saying this is the type of business you would like to own. He didn't want to worry about if he died tomorrow, and left his wife and daughter behind. After we made the deal, we had dinner and I brought up the topic of salary. I told him to name whatever number he wanted and I would sign the check. He asked me what I made. I told him $100,000 and he said he didn't want to make more than me, so we settled on $100,000. Pete called yesterday, and said he wanted to make an offer for another business. We talked for five minutes, I gave him some advice, but I really give them a lot of freedom. I've spent $1.7 billion and I've never even been to the company, at least I hope it's there.

I can't look at this group and tell you which 3 are going to be great managers. I can see it after they've been doing it for a while. Look at Mrs. B. She had one son involved in the business and 3 daughters not involved. She wanted a way to fairly distribute the proceeds of the business and this solved her problem. She worked until she was 103, and died at 104. She lived two blocks from the store. She left price tags on the furniture at her home because it made her feel more comfortable, like she was in the store. She left Russia and landed in Fort Dodge, Iowa. She saved $500 for 16 years to start this business that has the top 2 furniture stores in the nation. You can't hire those kinds of people, no matter what you pay them. We've been lucky that we've never lost a manager to competitors since 1965. Some retire, some were fired, but we give them the opportunity to paint their own canvas.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

Should managers learn about investing?

[CM: I think corporate managers should learn to be better investors because it would make them better managers.]

Charlie makes a good point. Managers should learn about investing. I have friends who are CEOs and they outsource their investing to a financial advisor because they don't feel comfortable analyzing Coke and Gillette and picking one stock vs. the other. Yet when an investment banker shows up with fancy slides and a slick presentation, an hour later the CEO is willing to do a $3 billion acquisition. It's extraordinary the willingness of corporate CEOs to make decisions about buying companies for billions of dollars when they aren't willing to make an investment for $10,000 in their personal account. It's basically the same thing.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

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Your thoughts on management compensation? Management compensation in a cyclical industry?

[RE: Management Compensation in a Cyclical Industry?]

Buffett: That's a terrific question. If you run a copper company and it's at $3.50/lb., you could be the village idiot and coin money. But if it's at 80-90 cents/lb., which is what it's been for most of my life, there can be tough times.

We have a wide range of businesses at Berkshire – some are easy to run and some not. We have a wide range of compensation systems. Most people, left to select their own compensation systems, [will pick one that gives them big guaranteed rewards].

If we owned a copper-mining company in its entirely, we'd base compensation on costs of production, which management has control over, rather than things based on market prices, which they don't control. Costs won't fluctuate a lot. Compensation should tie to what is under the control of management. Try to understand what management can have impact on.

At GEICO, we measure and compensate management and employees on two factors: unit growth and the profitability of seasoned business. (New business initially costs us money and we want it, so we don't penalize for it.)

If oil is $70 per barrel, I don't think management has anything to do with it – in fact, they denied they did in front of Congress. I'd measure the cost of finding new reserves over time – the ability to discover and extract oil at low unit costs. Some firms are much better at this than others.

[RE: Management Compensation in General]

Munger: It's easy to have a fair compensation system like we have at Berkshire. A lot of other public companies have fair systems, but about half have grossly unfair systems in which top management gets paid too much. But our impact on this matter has so far been about zero.

Buffett: We have 68 operating companies and I have responsibility for compensation of 40 managers (some have businesses grouped under them). I can't think of anyone we've lost over a 40-year period because of different views on compensation. We've never had a comp consultant (maybe at a subsidiary, but they're smart enough not to tell me [Laughter]). It's not rocket science. But a complicated, confusing system works to the advantage of people who have their hand on the switch.

I was put on one comp committee, and Charlie can tell you what happened...

Munger: We were the largest shareholder at Salomon, we were both on the board and Warren was on the comp committee. [When it came time for bonuses, there was] a frenzy of envy. Warren pushed toward slightly – and I emphasize slightly – more reasonable compensation and was voted down.

Buffett: Charlie used the term envy, not greed. Our experience is that envy is what really drives people. You can give someone a $2 million bonus and they're happy until they see the next guy got $2.1 million and then they're miserable.

Charlie has pointed out that of the seven deadly sins, envy is the most useless, because you just make yourself miserable and can't sleep. There's real upside to gluttony – I've had some great times with gluttony. And we won't get into lust. [Laughter]

Incidentally, the SEC wants more transparency in pay, which is a good idea, but it can become a shopping list. One CEO sees the other getting his haircuts paid for and he wants it too.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

Munger: The question is about the unfairness of executive compensation and the effect on investors. Now that you know the question, you can solve it.

Buffett: There are more problems with having the wrong manager than the wrong compensation system. It's enormously difficult to run a big company, so the greater sin is having the wrong person [as CEO vs. overpaying that person].

There is a natural tendency toward rising compensation due to ratcheting, the publicity of what other CEOs get and the lack of intensity of the bargaining process. You read about labor negotiations going on for weeks, both sides declare an impasse, they negotiate until 3 am, etc. When was the last time you heard about anything like this when a board negotiates pay with a CEO? There's not parity in the negotiating process – one side really cares and the other doesn't.

Comp consultants know that getting hired in the future depends on a recommendation from the CEO. Under those circumstances, it's an unfair fight. It's a joke.

I've been on 19 boards and they put me on one comp committee – and they regretted it. They're looking for cocker spaniels, not dobermans. I try to pretend I'm a cocker spaniel, but nobody's fooled. [Laughter]

What really drives it is envy, not greed. You pay someone $2 million and they might be quite happy until they hear that someone else got $2.1 million.

Charlie said of the seven deadly sins, envy is the worst because it makes you miserable. The other guy doesn't care.

Compare this to gluttony, which we're about to do [referring to the See's candy in front of them]. I've heard good things about lust, but I'll let Charlie address that. [Laughter]

Compensation is not rocket science. We have very simple systems to compensate our people. We don't make it complicated. We don't pay them for things that are happening that they have nothing to do with.

If oil goes from $30 to $60, there's no reason to pay [an oil company executive] for that. If they have low finding costs, which they can control, I'd pay them like crazy for that. That is the job you hire them for. To hand them huge checks for something they have no control over is crazy, and it's equally crazy to penalize them if oil prices go down. If oil prices went down and my CEO had low finding costs, we'd pay him like crazy.

Munger: This process has contributed to the rise of comp consultants. It reminds me of the joke about why the woman told the census taker that the man of the house was in jail for embezzlement. Because she didn't want to admit that her dad was a comp consultant. [Laughter]

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Q -Executive pay - what can we do to get the country and the issue going the right way?]

WB: Compensation - you can't do much. There are relatively few people that could do a lot, by withholding votes. Big shots don't like being embarrassed and it will make boards of directors sit up and take notice. It would not take many of the big institutions, only a few of the biggest, and the press would do the rest. You want a good press. The press needs material. I don't know how you create incentives for big institutions to do that. A lot of checklists that institutions use are asinine. Ben Graham bemoaned investors as a bunch of sheep. The press would do the work if they had material, but they won't respond to you. Small shareholders can write persuasive notes. It takes a real effective pressure to change behavior when self-interest is in their favor.

CM: In England, they got taxes up to 90%, so there was no possibility of earning a large income. That was counterproductive. You can get the politics of envy that ruins economics. I think people taking compensation have a moral duty not to take it; a moral duty to be underpaid. If generals and archbishops can do it, why can't the leaders of a large enterprise take less than the last dollar? That said, it is very difficult to implement.

WB: Envy is the silliest [of all the sins], because you feel worse and the other people feel fine; maybe they feel better. Rule out envy as part of your repertoire. Gluttony has some upside, with maybe some temporary side effects. Lust—of course I'll let Charlie speak to that. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[Q - on executive compensation packages in capital-intensive companies.]

Buffett: We spend a lot of time talking about compensation in capital-intensive businesses. You must include a capital cost element in a compensation system. See's Candies needs no capital. We think incentives are very important. Boards have relatively little impact on CEO compensation. The CEO has a big effect on his own compensation. They appoint their own compensation committee members, and CEOs aren't looking for Dobermans—rather they're looking for Cocker Spaniels. In my experience, boards have not thought about what to pay these people [CEOs]. There must be incentives to do the right thing and incentives not to do the wrong thing. Boards thinking like owners is ideal. Not every CEO wants a rational compensation policy. Who would, when an irrational system pays more? I don't think there should be compensation committees. [The board should]: hire the right CEO, and make sure he doesn't overreach. Boards don't care as much as the guy on the other side of the table [when it comes to CEO compensation]. Boards have gotten better in recent years, but started from a very low base.

Munger: I would argue that liberal pay for directors is counterproductive. It would be better if boards were not paid at all.

Buffett: The SEC will question a real owner's independence. To get business-savvy directors who think like real owners' representatives on the board is tough. [Board] compensation arrangements are more baloney. If compensation is too high, [the director] is not independent. Highly paid boards aren't going to argue with the CEO. It gets club-like. [Having] 100-page proxy statements explaining board compensation is wrong.

Munger: A director who has a lot to lose is loathe to be independent.

[Q - how shareholders can influence executive compensation.]

Buffett: The AIG outrage was probably disproportionate, but it doesn't matter. You can't legislate compensation. In the early Clinton administration, they legislated a cap on salaries, with unintended results. The Clinton administration attempt to do so was the worst legislation ever and resulted in much higher executive compensation. The result was taxes paid by shareholders and all kinds of counterproductive compensation arrangements. All you need is for the top half-dozen investment managers to speak out against the most egregious executive compensation arrangements. That would change behavior. The way to change big shots is to embarrass them. Directors don't like to look foolish and see their names in the paper. There is no constraining factor now. Every compensation committee hires a consultant, who raises the recommended compensation. It ratchets up executive compensation. We have the honor system— shareholders have the honor, and the executives have the system. [laughter]

Munger: The manager is like the guy in a glass house throwing stones. Sometimes the cure is worse than the disease.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

[Q - How do you determine management compensation plans at Berkshire?]

WB: I try to figure out if I owned the entire business what I'd pay them. This is not rocket science. The seventy businesses we have each have different economics – we don't set a standard Berkshire compensation plan. A BNSF needs lots of capital, others could be run by a chimpanzee, while others with Alfred P Sloan as CEO couldn't run them well. I try to figure out the best strategy – and we find that managers stay with us. It is not rocket science. But I spend time on it, and it takes ability to differentiate. An HR dept would be a disaster, and they would have people telling them all sorts of different equations. It requires common sense and interaction with managers. We agree on a measure of what they are adding to company.

CM: We have opposite system to GE and Army, and it works for us. Practically nobody is like us. It works, and makes us peculiar.

WB: I get worried when people agree with us. We have managers that will make tens of millions annually. Everyone wants to be treated fairly. The rationale should be understood, but there is no cross Berkshire rationale. It is ridiculous to put a cost of capital on each business. No difference if 40m or 43m or some other number is used in the business. The real thing is to pay managers for widening the moat that differentiates our business from competitors. I can't think of a manager who has left us over compensation.

CM: Amazing how simple it has been, how little time it has taken, and how well it has worked. Headquarters is typically hated in the field. We don't want an Imperial headquarters with charges imposed everywhere. We charge for credit, but that is it. Most headquarters charge for costs.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

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How important are managers?

We've spent many years buying many things without meeting managements at all. The $5 billion of stocks we bought in the first quarter are mostly run by managements we've never talked to. We read a lot, 10Ks, etc.

If we buy the entire business, we care very much about management and whether they'll behave in the future as they have in the past. We've had good luck with this.

But in marketable securities, we read the annual reports. Charlie and I read an annual report recently – it was very fancy – for an oil company that didn't talk about finding costs per MCF [million cubic feet of gas] or barrel [of oil]. The most important metric, over time, wasn't even discussed and when it was touched on, it was in a dishonest manner. That tells us a lot about the individual running the company. If he's not willing to talk to the owners, even once a year, that makes me question the person. In marketable securities, however, we've still bought into some extremely good businesses run by people we didn't care for because we thought they couldn't screw them up.

Munger: Two things matter: if the quality of the business is good enough, it can carry bad management. The reverse isn't true, though. It's very rare for a great manager to take over a bad business, say the textile business, and make it great. You shouldn't look for Warrens.

Buffett: It took me 20 years [to get out of the textile business]. If you asked me to run a tough business, I wouldn't do it. It's too tough. Even the best manager in the world couldn't fix it. If you gave me first draft pick of all CEOs in America and you said it was my job to run Ford Motor now, I wouldn't do it.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

I am bad at hiring good managers. How do you assess a person's capabilities?

You have to understand that we cheat. If you give me 100 MBAs (I am meeting over 30 schools this year), I no more could take the 100 and rank them - it would be impossible.

We buy businesses with great management in place. We have seen their record. They come with the business. Our job is not to select great managers; our job is to retain them. A majority of them are wealthy. They don't have a monetary reason to work in many cases. We have 19 people at head- quarters and 250,000 around the world. Our job is to make sure they have the same enthusiasm. We have to see passion in their eyes and believe the passion will remain, but we can create an environment to keep them happy. At these annual meetings, we tell them what a great job they did and make them feel appreciated. We don't have contracts — it doesn't work. Our managers are appreciated.

I can't be of help if you are looking at a group of MBAs. They know at this point in life how to fool you, what answers to give you. I would look for people with a passion for the job, doing more than their share, who are good communicators. In baseball, you have to hang up your cleats at 40, but our guys go on and on and on. Mrs. B worked until she was 103, then died the next year. That's a good lesson for our managers. [laughter]

CM: Story of Howard Amundsen; a young man asked him how do you get ahead? He replied, 'I always keep a few million dollars lying around just in case a good opportunity shows up.'

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

You take great pride in keeping your schedule wide open. Do you believe that corporate America is overscheduled and overstretched?

[Showed his blank schedule book]. Bill Gates is overscheduled. I am extremely lucky and I can say no to anything because there isn't an entity that can use economic pressure to make me do something. A lot of CEOs get into a lot of the rituals that are part of the job. I would rather deliver papers than be the CEO of GE. They have too much stuff to do that is a big pain. Don't get me wrong, CEOs have it pretty good. I'd imagine that every CEO in the Fortune 500 would be willing to take the job for half of the money. The 76 or so CEOs that run companies at Berkshire don't have to deal with bankers or lawyers. At Berkshire, we've never had a meeting for all of them anywhere. There are no presentations and no committees. They can be more productive, and it makes it attractive when they can do what they like to do best.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

Has the financial and economic crisis changed the integrity of management?

CM: The crisis was started by lack of integrity. Fortunately some of them are now gone. Pope Urban said it about Cardinal Richelieu – if there is a god, Cardinal Richelieu has much to answer for. But if there is no God, he's done rather well. Integrity is important. But everyone mouths the integrity even when it is lacking. Professing it is not same as doing it.

WB: Everyone else doing it is the problem. In 1993 stock options were going to be expensed. Accounting standards board backed off, and Senate voted 88-9 in support. Accounting Standards Board suggested doing it one of 2 ways, with first way preferred (expensing options through income statement). 498 companies chose #2. 2 companies took the preferred way. I spoke to many CEOs, and they said "I can't do it, because the other guy isn't doing it. I would be penalizing my shareholders if I report less than I can earn." Situational ethics problem is huge. A study showed how rare it is to find a 4 in the third digit of EPS. Many find that 1/10 of a cent to round it up. We try to find ways to avoid inducing that behavior. There is no Berkshire budget. Many subsidiaries use them. But if they submit to me, temptation is to fudge to match it in some way. If others thought others were doing it, they would do it. You want structures that eliminate bad behavior, that minimize human weakness.

CM: So much of bad behavior comes not from malevolence, but from the subconscious justification of poor decisions as being just part of the system. Best cure is that people that make the decisions bear the consequences. No one felt any responsibilities on Wall Street, for making bad loans sold on to someone else. It is deeply immoral to create systems like this. Who do you see apologizing for our recent mess? People think they did fine.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Technology

I have worked in various technologies businesses, but I understand that you do not typically invest in the technology sector. Why is that? How do you view technology as an individual and as an investor?

Technology is clearly a boost to business productivity and a driver of better consumer products and the like, so as an individual I have a high appreciation for the power of technology. I have avoided technology sectors as an investor because in general I don't have a solid grasp of what differentiates many technology companies. I don't know how to spot durable competitive advantage in technology. To get rich, you find businesses with durable competitive advantage and you don't overpay for them. Technology is based on change; and change is really the enemy of the investor. Change is more rapid and unpredictable in technology relative to the broader economy. To me, all technology sectors look like 7-foot hurdles.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

[Regarding 'bottom fishing' amongst technology stocks] I've seen a list of technology companies valued below their cash, but they're determined to spend that cash, so it'll go away.

[Pharmaceutical stocks in the early 1990s vs. tech stocks in 2001] "There is nothing obvious to us that technology stocks as a group are undervalued today. Also, pharmaceuticals as a group have a stellar track record of generating high returns on large amounts of capital, whereas the tech industry doesn't."

[On tech stock mania] "What the Internet offered was the ability to monetize the hopes of others. A lot of money was transferred from the gullible to the promoters. It's been a huge trap so far."

"The monetization of hope and greed is the way to make a huge amount of money. The biggest money made on Wall Street in the past few years has not been made by great performance but by great promotion."

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

[back to the questions.]

With speculation in the high tech area, what are your views on a crash? (2000)

Any time there have been real bursts of speculation in the market it does get corrected eventually. (He gave the Ben Graham voting machine quote). No wealth created just an enormous transfer of wealth. Money has been destroyed by the frictional cost of trading.

We had a mania in farmland in Nebraska, land prices spiked and when farm prices went down a lot of people and banks were devastated. A huge number of participants creates it's own truth for a long period of time.

[CM: Wretched excess, wretched consequences. Mixing ponzi schemes with good possibilities of internet. When you mix raisins with turds, they are still turds.]

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

[back to the questions.]

Are you worried about technology affecting investing?

No religious belief that we will not invest in tech, just can't find one where we think we know what the bush will look like in ten years or how many birds will come out of the bush.

I have talked with Stan Lipsky at length on how the internet will affect Buffalo News, what they can do better, etc. The internet can deliver news with no incremental cost, it will change the newspaper field dramatically, people are essentially paying prices for newspapers that don't reflect their future.

- *Source: BRK Annual Meeting 2000*
- *URL:*
- *Time: April 29th 2000*

back to the questions.

Because of the Internet, certain stocks will show great revenue and income growth like AT&T and Nokia. Would you consider investing in the telecommunications industry this way? (1999)

It□’s interesting that you mention AT&T - they□’ve done poorly for years, despite charge after charge. For people who understand it, there are tremendous amounts of money to be made in this business - a lot of them in this city of Omaha. But I□’m not one of them.

There□’s a big difference in making a lot of money and spotting a great business. At the turn of the century there were two industries that had never existed before but changed the entire twentieth century: the airlines and the autos. They□’ve been wonderful industries but lousy investments. There have been tons of capital lost in those industries, and it□’s been very hard to make money by riding on the coattails of the players in these businesses.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

Can you comment on how technological advances affect us financially?

As Alan Greenspan puts it, some hard-to-measure factor has caused us to not have inflation while enjoying growth. Technology is probably some part of that. It□’s been good for stocks, and good for bonds - you can see it in the markets and it□’s been beneficial from a societal standpoint.

We□’re just cautious in how technological advancements affect our businesses. We try to avoid ones where change will threaten the way a business is making money.

[CM: Steel-toed work shoes, for example, do not employ a lot of technological change.]

For example, Coke is making a product that is fundamentally unchanged from fifty years ago. We□’ve avoided lots of winners by sticking to this discipline - but we□’ve avoided lots of losers too.

Peanut brittle also does not have a lot of technological change.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[back to the questions.]

Why don't you use Bill Gates to invest in tech stocks?

Charlie and I put money in things we understand and think we’ll know what it’ll look like in 5, 10 or 20 years. Bill being on the board doesn’t change this. I’ll listen to any idea of his and, in fact, our investment ideas overlap quite a bit. I still wish I’d bought Microsoft when I’d first met him. (Laughter)

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

[back to the questions.]

Won’t Microsoft be doing software development ten years from now, just like

Coke will be selling soda? Doesn’t that make it a candidate for investment?

You cannot buy high tech companies at prices like, say, you were able to buy pharmaceutical companies for in the beginning of the 1990’s. If I had to bet on anyone, it would be Microsoft. But I don□’t have to bet. If anyone has superior knowledge and confidence, they can make such an investment. And they deserve to profit from it.

We’re willing to trade away a big payoff for a certain payoff. Bill Gates told me two tech companies in 1991 that he’d buy if he went to a desert island. We would have made a ton of money in them if we’d bought them, maybe more than in Coke. But he also named Coke as a third one, and we were happy to stick with that. The Dilly Bar9 has more certainty of being around in ten years than any software company.

There are dozens of software companies selling at prices that imply they’ll make $200 million or more per year in a few years - and that doesn’t happen very often. Only a dozen or so companies move into that category each year in the S&P 500. Look at the biotech companies: how many of them ever grew into the valuations they were given in the early 1990’s?

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[back to the questions.]

Education

What is your opinion of the importance of technology in business education today?

I love what technology is doing for the world, including me. I don’t think it is easy to pick who the technology winners will be in ten years, like it is with chewing gum or soft drinks. But, that is an investment decision. We are the world’s leaders in technology and it is an engine that will do wonders for this country over time.

It’s a tool.For a student to leave business school and not know how technology affects business and a mind to keep up with the progress of technology would be insupportable.

Technology is the future of business. It is transforming society. If I were starting out in business today, I would be very focused on technology.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

Could you comment on the state of financial literacy? Is there anything that could be added to educational curricula to improve it? What should future generations know?

Buffett: I think there's a problem with the current generation. ABC has a new TV program coming out [on the subject]. Financial literacy is a tough sell in a world of credit cards and calculators. But we're making progress over time. We recommend working with students to make them literate, and they'll have a terrific advantage. We hope our annual reports contribute. But people do silly things. On my honeymoon in 1952, I was 21, my wife was 19, and we stopped at the Flamingo in Las Vegas and saw well-dressed people who traveled thousands of miles to do something very dumb. [That tells you] it's a world of opportunity. I started teaching at the University of Nebraska at age 21.

Munger: [We live in a] world of legalized gambling, in the form of lotteries, and high-cost credit card debt. We've been going in the wrong direction. I don't think you can teach people high finance who can't use a credit card.

Buffett: If you're willing to pay 18% on a credit card, you will not come out well. It's probably good for our business. They'll go their way, we'll go our way. We're looking for things that are mispriced.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

back to the questions.

What can be done to educate children of financial management, and prevent future financial mayhem?

WB: We will see financial mayhem from time to time. People do crazy things. I would argue some of the problems were caused by the prevailing conventional wisdom taught in business schools. I'm not positive about modifying madness of man from time to time. Regarding the first part of your question, getting good financial habits early in life is important. Not everybody gets that. Andy Hayward, who did Liberties Kids, has created the Secret Millionaires Club show. If we get to 2-3% of kids with better habits it will be good for the world. We will take Ben Franklin's ideas and make them entertaining for children's stories. It is good to have smart learning at elementary level, that is better than advanced degrees at graduate level.

CM: I admire McDonalds, which I think has succeeded better as educators than a university where I recently spoke. They were not amused at the comparison. McDonald's has had a constructive effect on employees who were threatened with not making it. They teach marginal people responsibility. Employment culture of McDonald's is not appreciated enough. Come to work on time, move up the ladder, get a paycheck, and many go onto much higher paying jobs.

WB: I learned a lot from a Paper Manager at the Washington Post – he taught me, and talked to me not in a preaching way, saying 'you could do better if you did this'. Lucky if parents teach you, but anything that brings it into broader teaching environment I'm for.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Do you think an MBA is an important degree for students to have today?

If you are interested in business, or likely to be in business, an MBA is very useful. But, what is really important is what you bring to a class in terms of being interested in the subject. If you view a course like accounting as a drudge and a requirement, you are missing the whole game. Any course can be exciting. Mastering accounting is like mastering a new language, it can be so much fun. The attitude should be one of discovery, that you are coming there and discovering. Accounting is the Rosetta Stone of business. Economics is fascinating, the first page of economics describes how mankind deals with insatiable wants and creates the systems to fulfill these wants. It's great stuff. Really how the world works. Business is a subsection, a fairly understandable subsection, not like black holes, which are fairly hard to visualize, but business is everyday stuff and you are learning how the world works. You are 18-19 years old and learning about the world, understanding how this great world works. The GDP per capita in the 20th century increased 6 to 1. Think of that, six times. Why does that work here in the U.S., why doesn't it work other places? The U.S. is a small part of the universe, but a very important part and understanding that and seeing everything else against that backdrop for the rest of your life is fabulous.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

What do you remember about your education at the University of Nebraska?

I had a great experience at Nebraska. Probably the best teacher I had was Ray Dein in accounting. I think everybody in business school should really know accounting; it is the language of business. If you are not comfortable with the language, you can' t be comfortable in the country. You just have to get it into your spinal cord. It is so valuable in business.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

You began you university education at another institution, what are you thoughts on the education you received at the University of Nebraska?

The best year of my undergraduate work was at Nebraska; I would call it my best overall experience except for the year at Columbia, where I studied with Ben Graham. The teachers at the University turned me on. There wasn't a class that disappointed me. I was close to my professors, who actually taught the classes, At my previous undergraduate college, graduate students taught the classes. One of the best things that happened was the day the University was going to award the "Nathan Gold Scholarship," a $500 scholarship to attend graduate school anywhere in the U.S. As it turned out, I was the only applicant that showed up for the interview. So I won the scholarship by default. My dad wanted me to apply to Harvard Business School. It was a 10-hour train ride to Chicago where I met with the person who was to interview me, and was told to come back another time when I was older. I was 19 at the time. So I rode 10 hours back, wondering what I was going to tell my Dad. In August of that year I was leafing through magazines and discovered that Ben Graham was teaching at Columbia, so I contacted the Dean at Columbia and even though it was very late to apply, was accepted.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

What's the one thing that your MBA didn't prepare you for when you got out into the real world?

Well, I was -- it prepared me very well, not the whole degree, but specific professors prepared me very well for what I wanted to go into. I knew I was interested in investing, like I say, from the time I was six or seven years of age. So I was lucky that I found what turned me on early on. And I had these two marvellous professors here at Columbia that just being around -- I had read all the stuff they had written. So it wasn't I was acquiring lots of incremental knowledge but I was getting inspired. They were terrific for me. They treated me like a son. They would take me out to dinner. Ben Graham did the same thing for me. So it gave me confidence in myself. It just propelled me into a field I already love with a terrific tailwind from these professors that believed in me. But let me add one point because -- to the MBA situation. Right now, I would pay $100,000 for 10% of the future earnings of any of you. So anybody that wants to see me after this is over -- If that's true, you are a million-dollar asset right now, right, if 10% of you is worth 100,000? You could improve -- many of you, and I certainly could have when I got out, just in terms of learning communication skills. You know, it's not something that is taught. I actually went to a Dale Carnegie course later on in terms of public speaking. But if you improve your value 50% by having better communication skills, that's another $500,000 in terms of capital value. See me after the class and I'll pay you 150-thousand.

- *Source: Buffett & Gates at Columbia Business School*
- *URL:*
- *Time: November 12th 2009*

back to the questions.

Personal

How would you define your character? And what portion of your character do you believe contributed the most to your success?

The important qualities you need are intelligence, patience, and interest, but the biggest thing is to be rational. In ‘97-8, people weren’t rational. People got caught up with what other people were doing. Don’t get caught up with what other people are doing. Being a contrarian isn’t the key, but being a crowd follower isn’t either. You need to detach yourself emotionally. You need to think about what is going on around you. Being in Omaha helps me in that regard. When I was in NYC, I had 50 people whispering in my ear before noon. It’s hard sometimes, like when the Internet craze hit. Nobody likes to see their neighbor doing stupid things and getting rich. It was like Cinderella’s ball, I think I’ll just have one more dance, it’s not midnight yet. Sounds simple – but it is hard to leave the party. The problem with stocks is they don’t have clocks. You don’t know when it will be midnight so you can leave the party. My partner Charlie Munger and Tony Nicely at Geico are always rational. 160 IQs can say stupid things that sound good. People do silly things, whether they have 120 IQ or 160. You can always improve your rational thought. Rationality is the only thing that helps you. One thing that could help would be to write down the reason you are buying a stock before your purchase. Write down "I am buying Microsoft @ $300B because..." Force yourself to write this down. It clarifies your mind and discipline. This exercise makes you more rational.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

After all your accomplishments, what legacy do you want to leave behind?

I think an example is the best thing you can leave behind. Obviously, you want to leave the right example. I mean, Wilt Chamberlain's tombstone may say, "At last, I sleep alone," and that's probably not the example you want to leave. If what I've done with Berkshire Hathaway - running a unique and independent company in true pursuit of shareholder value - persists and people learn from it to improve the way they invest and run their companies, that would be a fine legacy to leave.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

back to the questions.

What led you to develop your values and goals at an early age?

I was lucky because I knew what I loved at an early age. I was wired in a certain way when I was born, and I was lucky enough to stumble upon some books at a library at a very early age. In 1930, I won the ovarian lottery. If I had been born 2000 years ago, I'd have been somebody's lunch. I couldn't run fast, etc.

I was lucky. I had a terrific set of parents. My father was an enormous inspiration for me. The job when you are a parent is to teach them. Be a natural hero. They are learning from you every moment you are around. There is no rewind button. If your parents do what they say and their values match what they teach you, you are lucky. What I observed in the world was consistent with what my parents taught me. That was important. If you are sarcastic, and use it as a teaching tool to kids, they'll never learn to get over it. Those first few years they are very impressionable.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Are you a goal oriented person? When you were in college did you set goals for yourself?

I have always liked business and wanted to be in business. This is my ledger from 1950, when I was at the University of Nebraska. It shows the investment in my golf ball business. I had $44 cash and half interest in a car. I also had a brokerage account, but had to buy stocks in my sister's name because I was underage.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

Your goals were financial then?

Business, I like the process of business. Money is a way to be in business, but the real fun is the activity itself.

- *Source: University of Nebraska Business Magazine*

- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

Who are your heroes?

I have been extraordinarily lucky with my heroes, starting with my Dad. I have never been let down by one of my heroes. When I was about 13 or 14, we moved to Washington. I was all mixed up for a while, I ran away from home, stole things, but I got through it because I had the right heroes. If you have the wrong ones you have a real problem, because you are going to emulate your heroes. You will gravitate toward the people you admire. If you don't choose those people carefully, you will very quickly develop situational ethics that can get you into trouble.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

What goals do you set for yourself today; do you have goals you still want to accomplish?

Berkshire is my canvas. The goal I have is to have Berkshire be general- ly admired for what it is. I am also proud that we do things at Berkshire that are dif- ferent than other corporations. My partner, Charlie Munger, says that Berkshire is a didactic exercise, that it is a teaching platform. We do things differently at Berkshire than in other business which bring into question the generally accepted ways of doing business.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

How do you spend your day?

- Wakes up at 6:45, reads paper at home, often doesn't make it into the office until after the market opens
- No set schedule, WB hates having a full calendar
- Always takes reading material home
- Spends 80% of the day reading, 20% talking on the phone (he then said it might be more like 90/10)
- Phone conversations are generally short

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

back to the questions.

What do you read?

Most of reading includes K's, Q's and 5 newspapers daily. I haven't found much worthwhile book reading outside of Graham and Fisher.

[For recommended books see http://futile.free.fr/wbbiblious.html]

- *Source: Buffett Vanderbilt Notes*
- *URL:*
- *Time: Jan 2005*

back to the questions.

How do you define happiness and what about your life makes you most happy?

I enjoy what I do, I tap dance to work every day. I work with people I love, doing what I love. The only thing I would pay to get rid of is firing people. I spend my time thinking about the future, not the past. The future is exciting. As Bertrand Russell says, "Success is getting what you want, happiness is wanting what you get." I won the ovarian lottery the day I was born and so did all of you. We're all successful, intelligent, educated. To focus on what you don't have is a terrible mistake. With the gifts all of us have, if you are unhappy, it's your own fault.

I know a woman in her 80's, a Polish Jew woman forced into a concentration camp with her family but not all of them came out. She says, “I am slow to make friends because when I look at people, I have one question in mind; would they hide me?” If you get to be my age, or younger for that matter, and have a lot of people that would hide you, then you can feel pretty good about how you’ve lived your life. I know people on the Forbes 400 list whose children would not hide them. “He’s in the attic, he’s in the attic.” Some of them keep compensating by joining board seats or getting honorary degrees, but it doesn’t change the fact that no one will give a damn when they are gone. The most powerful force in the world is unconditional love. To horde it is a terrible mistake in life. The more you try to give it away, the more you get it back. At an individual level, it’s important to make sure that for the people that count to you, you count to them.

What if you could buy 10% of one of your classmates and their future earnings? You wouldn’t buy the ones with the highest IQ, the best grades, etc, but the most effective. You like people who are generous, go out of their way, straight shooters. Now imagine that you could short 10% of one of your classmates. This part is usually more fun as you start looking around the room. You wouldn’t choose the ones with the poorest grades. Look for people nobody wants to be around, that are obnoxious or like to take all the credit. If you have a 500 HP engine and only get 50 HP out of it, you’ll be beat by someone else that has a 300 HP engine but gets 250 HP output.

The difference between potential and output comes from human qualities. You can make a list of the qualities you admire and those you despise. To turn the tables, think if this is the way I react to the qualities on the list, which is the way the world will react to me. You can learn to turn on those qualities you want and turn off those qualities you wish to avoid. The chains of habit are too light to be felt until they are too heavy to be broken. You can’t change at 60; the time to look at that list is now

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

I tell college students, when you get to be my age you will be successful if the people who you hope to have love you, do love you. Charlie and I know people who have buildings named after them, receive great honors, etc., and nobody loves them -- not even the people who give them honors. Charlie and I talk about wouldn't it be great if we could buy love for $1 million. But the only way to be loved is to be lovable. You always get back more than you give away. If you don't give any you won't get any. Everybody loves Don Keough [former senior executive and Board member of Coca Cola]. There's nobody I know who commands the love of others who doesn't feel like a success. And I can't imagine people who aren't loved feel very successful.

[CM: You don't want to be like the motion picture exec who had so many people at his funeral, but they were there just make sure he was dead. Or how about the guy who, at his funeral, the priest said, "Won't anyone stand up and say anything nice for the deceased?" and finally someone said, "Well, his brother was worse."]

Most people in this room and most college students I talk to will have plenty of money, but some will have few friends.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[Re: Keys to Happiness and Success]

[CM: Just avoid things like racing trains to the crossing, doing cocaine, etc. Develop good mental habits.]

I get letters every day from people in financial trouble. Often it’s health related, but it’s often debt. They’re decent people, but they’ve made a mistake. They’re not going to catch up, so I tell them to just file for bankruptcy and start fresh. In most cases, they should have done so a lot earlier.

[CM: Avoid evil, particularly if they’re attractive members of the opposite sex.]

If you hang out with a bad bunch, it’s likely to rub off.

Look at the people you like to hang out with. What qualities do you like about them? Why don’t you copy them? And look at the people you don’t like. What don’t you like about them, and can you stop doing these things?

[CM: If your new behavior earns you a little temporary unpopularity with your peer group, then the hell with them.]

This reminds me of the old lady who was asked what she liked about being 103 years old? She replied, "No peer pressure."

- Source: BRK Annual Meeting 2004 Tilson Notes
- URL:
- Time: 2004

back to the questions.

If you could have lunch with one person you have never met, who would it be and why?

I would have to say Isaac Newton or Benjamin Franklin. I've met a lot of interesting people and some uninteresting ones, too. The two men had a bigger grasp of the world they lived in. But I don't think I would pass up an opportunity with Sophia Loren.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

How do you stay so down to earth and humble? Are there specific people or lessons you have learned throughout your life that enable you to maintain this outlook?

I was lucky to have the right heroes. Tell me who your heroes are and I'll tell you how you'll turn out to be. One of your most important jobs in life will be raising your children. They will learn more from you than they will in graduate school. My father was a huge influence, and later on Graham came along. I was also never let down by my heroes.

I had nothing to do with my own success. My father was a securities broker and after the Great Crash, he had no one to call. Consequently, I was born in 1930 in the United States during the time of one of the greatest capital markets. I was born with the wiring for capital asset allocation. I had the right wiring at the right time. Temperament is a large part of my wiring. I was naturally good at it, and I used some feedback to develop it better. There is nothing to be arrogant about. Gates says if I had been born earlier, I would've been some animal's lunch. I can't run, I can't climb. I'd be talking about allocating capital and the animal would think, "Those are the kind that taste the best." You have all won the ovarian lottery. There is no reason to feel guilty about it.

I have never given away a dime that has any meaning on how I live. There are people that go to church and they put money in the offering plate that truly makes a difference in how they will live their lives, what they will eat, what presents they will buy for their children. There's no reason to get puffed up over things you didn't control.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

What are some of your biggest mistakes or regrets?

We've made lots of mistakes, but they don't bother me. We've had no regrets. We are in the business of making many decisions and there are bound to be mistakes. There are $10 billion mistakes of omission that no one knows about; they don't show up in the accounting. In 1994 we paid $400 worth of Berkshire stock for a shoe company. The company is now worth 0, but the stock is worth $3.5 billion. So now, I'm happy to see Berkshire go down since it reduces the size of my mistake. In 1973 Tom Murphy offered us NBC for $35 million, but we turned it down. That was a huge mistake of omission.

In my personal life, there are always things I could've done differently. But so many good things have happened. It just doesn't pay to dwell on the bad things. Finding the right spouse is 90% of it. If you are lucky on health and lucky on your spouse, you are a long way home. Getting turned down by HBS was one of the best things that could have happened to me, bad luck can turn out to be good.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

[CM: "The most extreme mistakes in Berkshire's history have been mistakes of omission. We saw it, but didn't act on it. They're huge mistakes -- we've lost billions. And we keep doing it. We're getting better at it. We never get over it."

"There are two types of mistakes: 1) doing nothing; what Warren calls "sucking my thumb" and 2) buying with an eyedropper things we should be buying a lot of."]

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

First off, follow Graham and you'll be fine.

My biggest mistakes were errors of omission vs. commission. Berkshire Hathaway was also a big mistake. Sometimes the opportunity costs of keeping money in something (like a lousy textile business) can be a drag on Berkshire's performance. We didn't learn from the previous mistake and bought another textile mill (Womback Mills) 6-7 years after buying Berkshire Hathaway. Meanwhile, I couldn't run the one in New Bedford.

Tom Murphy, my friend, bought the newspaper in Fort Worth. The previous ownership of these entities owned NBC as well, but he wanted to divest the NBC affiliate - $30 million to buy, doing $75 million in earnings. It was really a pretty good company, but he wanted to sell it anyway. There wouldn't be many more of it. Network television stations don't require excessive brains to run. They add a lot of money to our bottom lines.

We have never lost lots of money in things, except in insurance after 9/11. We don't do the kinds of things that lose you a lot of money. We just might not be finding the “best” opportunities.

Don't worry about mistakes. You'll make mistakes. Get over it. At the same time, it's important to learn from someone else's mistakes. You don't want to make too many mistakes.

Side note: Warren once asked Bill Gates, “If you could only hire from one place, where would it be?” Gate's reply was Indian Institute of Technology.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

[Q - Sometimes we learn more from our failures than our successes. What do you consider your greatest mistake or failure?]

I have made lots of failures of omission more than failures of commission. Things that I understand, there have been a few, a couple that cost $10B. If a business was selling cheap and I did not buy, I consider that a failure. As Charlie would say, I was sucking my thumb on that one. I made a terrible deal buying Dexter Shoe. I did not learn much from it either. I bought it for $400M, but the biggest mistake is that I gave up stock that is now worth $3B.

You’re going to make mistakes. You can’t play in the game without making any mistakes. I don’t think about it, I just move on. Most business mistakes are irreversible setbacks, but you get another chance. There are two things in life that you don’t get another chance at – marrying the wrong person and what you do with your children. Business, you just go on. It’s a mistake to dwell on mistakes, it’s unproductive. It’s like Mark Twain’s story about the cat that sat on a hot stove – he never sat on a hot stove again, but he never sat on a cold one again either.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

How do you think differently today than you did twenty years ago? Where do you expect to see the greatest differences in 2030?

The fundamental things about investing that I learned when I was younger haven't changed. I am lucky to have picked up a book at 19, The Intelligent Investor, that gave structure to investing and investment decisions. Over time, I learned different ways to apply it. I have learned what it is outside my circle of confidence. I bought See's in 1972 and I think understanding the value of brand helped drive the decision to buy Coca-Cola in 1988. Through experience, I have gotten smarter on predicting and evaluating human behavior. My wife put me together in terms of human behavior. I really enjoy doing what I do and I get to do what I want. I enjoy talking to groups like these. Irv and Ron Blumkin are some of my best friends and I continue to add friends by buying businesses. I don't want a boat or 12 houses. I'm almost fully depreciated, down to my residual value. Age doesn't affect my ability to my job though, as opposed to Arnold Palmer, he can't play his game.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

Why are you frugal?

You can't buy health and you can't buy love. I'm a member of every golf club that I want to be a member of. I'm the highest handicap member of Augusta National. I'd rather play golf here with people I like than at the fanciest golf course in the world. I can do anything that I want, and I do. I buy everything I want to have. I'm not interested in cars and my goal is not to make people envious. Don't confuse the cost of living with the standard of living. Bella Eidenberg was a Polish Jew who was at Auschwitz and some of her family didn't make it. Twenty years ago she said she was slow to make friends, and that the real question in her mind was always, “Would they hide me?” If you have a lot of people that would hide you, you've had a very successful life. That can't be bought. I know people that have billions of dollars and their children would say, “he's in the attic.”

I estimate that I live on $100,000 per year, except for my plane which costs me about $1 to $1.5 million. I like the plane, it improves my life. My computer and my airplane changed my life in a big way and I'm not sure, if I had to choose, which one I'd give up. Anything beyond $50 Million doesn't improve my life. If I took out $3 billion of Berkshire stock, I could have paid 30,000 people $100,000 per year to paint my portrait every day. I could have paid 50,000 people $60,000 per year to dress in loin cloths and haul rocks to create the Buffett tomb. That's not me. I believe in giving my kids enough so they can do anything, but not so much that they can do nothing.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

What would you do to live a happier life if you could live over again?

This will sound disgusting. The question is how would I live my life over again to live a happier life? The only thing would be to select a gene pool where people lived to 120 or something where I came from.

I have been extraordinarily lucky. I mean, I use this example and I will take a minute or two because I think it is worth thinking about a little bit. Let's just assume it was 24 hours before you were born and a genie came to you and he said, "Herb, you look very promising and I have a big problem. I got to design the world in which you are going to live in. I have decided it is too tough; you design it. So you have twenty-four hours, you figure out what the social rules should be, the economic rules and the governmental rules and you and your kids and their kids will live under those rules.

You say, "I can design anything? There must be a catch?" The genie says there is a catch. You don't know if you are going to be born black or white, rich or poor, male or female, infirm or able-bodied, bright or retarded. All you know is you are going to take one ball out of a barrel with 5.8 billion (balls). You are going to participate in the ovarian lottery. And that is going to be the most important thing in your life, because that is going to control whether you are born here or in Afghanistan or whether you are born with an IQ of 130 or an IQ of 70. It is going to determine a whole lot. What type of world are you going to design?

I think it is a good way to look at social questions, because not knowing which ball you are going to get, you are going to want to design a system that is going to provide lots of goods and services because you want people on balance to live well. And you want it to produce more and more so your kids live better than you do and your grandchildren live better than their parents. But you also want a system that does produce lots of goods and services that does not leave behind a person who accidentally got the wrong ball and is not well wired for this particular system. I am ideally wired for the system I fell into here. I came out and got into something that enables me to allocate capital. Nothing so wonderful about that. If all of us were stranded on a desert island somewhere and we were never going to get off of it, the most valuable person there would be the one who could raise the most rice over time. I can say, "I can allocate capital!" You wouldn't be very excited about that. So I have been born in the right place.

Gates says that if I had been born three million years ago, I would have been some animal's lunch. He says, "You can't run very fast, you can't climb trees, you can't do anything." You would just be chewed up the first day. You are lucky; you were born today. And I am. The question getting back, here is this barrel with 6.5 billion balls, everybody in the world, if you could put your ball back, and they took out at random a 100 balls and you had to pick one of those, would you put your ball back in?

Now those 100 balls you are going to get out, roughly 5 of them will be American, 95/5. So if you want to be in this country, you will only have 5 balls, half of them will be women and half men--I will let you decide how you will vote on that one. Half of them will below average in intelligence and half above average in intelligence. Do you want to put your ball in there? Most of you will not want to put your ball back to get 100. So what you are saying is: I am in the luckiest one percent of the world right now sitting in this room--the top one percent of the world. Well, that is the way I feel. I am lucky to be born where I was because it was 50 to 1 in the United States when I was born. I have been lucky with parents, lucky with all kinds of things and lucky to be wired in a way that in a market economy, pays off like crazy for me. It doesn't pay off as well for someone who is absolutely as good a citizen as I am (by) leading Boy Scout troops, teaching Sunday School or whatever, raising fine families, but just doesn't happen to be wired in the same way that I am. So I have been extremely lucky so I would like to be lucky again.

Then the way to do it is to play out the game and do something you enjoy all your life and be associated with people you like. I only work with people I like. If I could make $100 million dollars with a guy who causes my stomach to churn, I would say no because in way that is very much like marrying for money which is probably not a very good idea in any circumstances, but if you are already rich, it is crazy. I am not going to marry for money. I would really do almost exactly what I have done except I wouldn't have bought the US Air.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

back to the questions.

What keeps you up at night?

I try to live my life so nothing keeps me up at night. I don't like to sound, you know, like a mortician during an epidemic or anything, but last fall was really quite exciting for me. I don't wish it on anybody, but there were things being offered. There are opportunities for us to do things that didn't exist a year or two earlier. So I really don't -- I don't want to be in a position where I am leveraged or something of the sort that does keep me up at night. I did not worry about the ultimate survival of our economic system. We were messed up. Wasn't any question about that. But the plants haven't gone away. The cornfields haven't gone away. The talent of the American people hasn't gone away. The innovativeness of the next Bill Gates hasn't gone away. This country was going to do fine. I knew that. We just had to get things straightened out. And we're well on the way to having that happen.

- *Source: Buffett & Gates at Columbia Business School*
- *URL:*

- *Time: November 12th 2009*

The most dramatic way we protect ourselves is we don't use leverage. We believe almost anything can happen in financial markets. The only way smart people can get clobbered is [if they use] leverage. If you can hold them [the positions you own during a crisis], then you're OK. But even smart people can get clobbered with leverage – it's the one thing that can prevent you from playing out your hand.

Absent leverage or just going crazy on valuation, the financial cataclysms won't do you in. And if you have any more money, you buy.

Berkshire is in an extraordinary position to weather any financial cataclysm. While we don't go around like an undertaker, hoping for a plague, we would benefit [in such a situation] and have done so in the past. We've never gotten hurt in the past 30-40 years by what's going on in the world around us.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

What do you think were the major qualities that you have that distinguish you from the majority?

It's always interesting when Bill and I appear together, they don't figure they can do what Bill does, but they know they can do what I do. We did both have a passion. We were doing what we did because we loved it. We weren't doing it to get rich. We probably felt if we did it well, we would get rich. But we'd have done it, you know, if somebody was slipping bread in under the door, you know, to keep us going. And so I think that passion for it is enormously important. I was lucky enough to have a couple of great teachers, particularly one great teacher. I had a great teacher in life in my father. But I had another great teacher in terms of profession in terms of Ben Graham. I was lucky enough to get the right foundation very early on. And then basically I didn't listen to anybody else. I just look in the mirror every morning and the mirror always agrees with me. And I go out and do what I believe I should be doing. And I'm not influenced by what other people think.

- *Source: Buffett & Gates at Columbia Business School*
- *URL:*
- *Time: November 12th 2009*

back to the questions.

What was your reasoning behind your huge contribution to the Bill and Melinda Gates foundation?

Well, I wouldn't have given it to them unless I was 100% in sync with their objective, which is do the most good for the most people, wherever they may be, male or female, whatever their color, whatever their religion or so on. They believe every human life is equal to every other one. I am very good at making money. If you read what Adam Smith wrote in 1776 about specialization of labor, you know, he said if you need to deliver a baby, don't try to learn to do it yourself. Get an obstetrician. So Bill and Melinda will be better and my children who will also have foundations will be better at doing it than I would be. And that's fine. I'll work at what I'm good at and I'll let them do it. And they are doing it 100% in accord with my wishes.

- *Source: Buffett & Gates at Columbia Business School*
- *URL:*
- *Time: November 12th 2009*

[Q - which part of this incredible act was most important or most concerning to you and why?]

I actually gave the stock away 15 years ago in my mind, created a trust mentally. When my wife died, I was forced to do something. Soon after I discussed my plans with Bill and Melinda they gave me an original copy of Adam Smith's Wealth of Nations. In the first chapter Adam Smith talks about “Specialization of Labor”, which talks about markets and allowing countries to specialize and work on what they are good at. Mike Tyson doesn't try to run Berkshire, and I don’t try to get in the ring with Mike Tyson. This is how I look at philanthropy. I started looking for people that were younger, smarter, more experienced, and doing it with their own money. I looked for people that had similar goals, who would do the best with the money. In effect, I outsourced the handling of my philanthropy. It was a no brainer.

In the Fortune article, I stated that business is a game that I love because I get to hit the easy pitches. Ted Williams had written a book about hitting and he said to succeed in baseball, you had to wait for the best pitch. See’s Candies to me was an easy pitch. It is not like Olympic diving, where one could do a simple dive perfectly, but score lower than someone who might have made a big splash attempting a more difficult dive. In diving you are judged on the degree of difficulty. Philanthropy is the opposite of investing with degree of difficulty. Philanthropy deals with trying to solve the toughest problems in society, so you expect to fail very often. I personally don’t like failing, so I’d rather let someone else do it. I wouldn’t personally enjoy working on something where I couldn’t get any feedback on how I was doing and in fact, expected the project to fail. My lifespan is 12 years now and I should be able to add tens of billions of dollars to my “donation” in that time. I am going to stick with what I love doing and I am glad others will work on giving the money away.

I’m just lucky to have been in the right place at the right time. Another place, another time, I wouldn’t have been as successful. Society enabled me to make my money and my money should go to society.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

If you could come back again, would you want to be Warren Buffett?

I’d want to be Mrs. B - she made it to 104! (An allusion to the longtime manager of the Nebraska Furniture Mart, Mrs.

Rose Blumkin, who died in 1998.)

I have fun every day. I had fun at twenty-five, I have it now. I work with people I like; what would I do differently? I don’t understand people who’d like to change skins with others.

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

back to the questions.

What's your view on inheritances?

I’m a big believer in meritocracy. I don’t believe that people should get a big head start in life because of what womb they came from. I believe that society doesn’t benefit from that, but it does benefit when people are rewarded based on what they do.

[CM: Throughout history, lots of people have had much handed to them - and they haven’t always done well with it afterwards.]

- *Source: BRK Annual Meeting 1999*
- *URL:*
- *Time: 1999*

[Q - Could you discuss your views on estate planning and how you will allocate your wealth to your children?]

It really reflects my views on how a rich society should behave. If it weren't for this society, I wouldn't be rich. It wasn't all me. Imagine if you were one of a pair of identical twins and a genie came along and allowed you to bid on where you could be born. The money that you bid is how much you had to agree to give back to society, and the one who bids the most gets to be born in the US and the other in Bangladesh. You would bid a lot. It is a huge advantage to be born here.

There should be no divine right of the womb. My kids wouldn't go off and do nothing if I give them a lot of money, but if they did, that would be a tragedy. $30 billion will be generated from estate taxes, which will go to help pay for the war in Iraq and other things. If you take away the estate tax, that money will have to come from somewhere else. If not from estate taxes then you inherently get it from poorer citizens. Less than 2% of estates will pay the estate tax. They would still have $50 million left over on average. I think those that get the lucky tickets should pay the most to the common causes of society. I believe in a big redistribution. Wealth is a bunch of claim checks that I can turn in for houses, etc. To pass those claim checks down to the next generation is the wrong approach. But for those that think I am perpetuating the welfare state, consider if you are born to a rich parent. You get a whole bunch of stocks right at the beginning of your life, and thus you are sort of on a welfare state of support from your rich parents from the beginning. What's the difference?

At $100,000 a year, I can find 10 people to paint my portraits to find the perfect one. I have that kind of money. But that is a waste, as those people could be doing something useful. I feel the same way about my kids and other heirs. They should be doing things that help to contribute to society.

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

What feedback mechanisms do you have in place?

It is part of human nature to interpret all new information such that prior conclusions remain intact.

Having a good partner is key. Charlie will not accept anything I say because I say it. It's great to have a partner who will tell you when you're thinking is wrong.

The typical corporate organization is structured so that a CEOs beliefs and biases are reinforced. Staffs won't give you any contrary recommendations -- they'll just come back with whatever the CEO wants. And the Board of Directors won't act as a check, so the CEO pretty much gets what he wants.

Having good feedback mechanisms is terribly important. We have a very good system."

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

back to the questions.

Your friendship with Charlie?

The people who introduced Charlie and me thought we'd either really hit it off or quickly dislike each other, as we both had very strong personalities...Over the years, we've had disagreements, but never an argument.

You should think about what you like in other people and admire about them. Then ask yourself which of these traits you ones you physically or mentally can't have. The answer is: NONE! The reverse is also true. Habits are critical and hard to change. Ben Franklin had a list of qualities and set out to acquire them.

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

[CM: I think there's some mythology in this idea that I've been this great enlightener of Warren. He hasn't needed much enlightenment. But we know more now than five years ago.]

Charlie and I have been partners in some way since 1959. We worked together in a grocery store and both came to the conclusion that we don't like hard work.

We have never had an argument. You just have to learn how to calibrate his answers. If you ask Charlie something and he says "no," then we put all of our money in it. If he says "that's the stupidest thing I've ever heard," then we make a more moderate investment. If you calibrate his answers and then you'll get a lot of wisdom.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[BRK2007 - “Charlie can hear quite well and I can see, so we work well together.”]

back to the questions.

Why don't you charge a percentage management fee to Berkshire, given that you earned 25% of the profits above 6% each year when he ran the Buffett Partnership. Is it because you believes, as you've said before, that "it's better to give them to receive"?

I would pay a lot of money for the job I have. If I can work with people I like, why do I need to make a further override when I already have a lot of money? I was changing my life at the time [when I ran the Buffett Partnership] and I needed money then. I got no management fee at all.

Berkshire was originally owned by the [Buffett] partnership and I would be double dipping [to also take a fee from Berkshire]. By that time I had all of the money I needed. It [taking a percentage of Berkshire's profits] would make a difference in the size of my foundation, but I like the way that I live.

[CM: Carnegie was always proud that he took very little salary. Rockefeller, Vanderbilt were the same. It was a common culture in a different era. All of these people thought of themselves as the founder. I was delighted to get rid of the pressure of getting fees based on performance. If you are highly conscientious and you hate to disappoint, you will feel the pressure to live up to your incentive fee. There was an enormous advantage [to switching away from taking a percentage of the profits to managing Berkshire, in which their interests as shareholders are exactly aligned with other shareholders].]

Bill Gates takes a small salary -- the only reason he takes a salary at all is so that he can reduce it if they have a bad year. He wants to be able to take a 90% cut. He's also never taken a stock option. I think this is true of Steve Ballmer as well. They got rich with their shareholders, not off of their shareholders.

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

[A shareholder pointed out that Buffett's salary is only about 10 cents/year/A share and suggested shareholders would happily pay him 25 cents/share/year. Buffett replied:]

I would pay to have this job. It doesn't get any better than this. I'm getting SS now. My family would go crazy if I were getting any more money.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

Who are your current role models?

I have a number of them – I'm not sure I want to name them. I've been very lucky – the ones I've had have never let me down. It would be a terrible experience and hard to get over. People have had it in marriage or business. The worst is with your parents. The reverse happened with me.

Choosing your heroes is very important. Associate well, marry up and hope you find someone who doesn't mind marrying down. It was a huge help to me – I can tell you that. [Laughter]

Munger: You're not restricted to living people when choosing your mentors. Some of the best people are dead. [Laughter]

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

What's the motivation behind giving your fortune away? your philanthropy?

Buffett: I always felt I would compound money at a rate higher than average and it would have been foolish to give away a significant portion of my capital, which would have been spent within months. I thought my wife would be doing it [giving my fortune away], but that didn't work out.

When my wife and I had a baby, we hired an obstetrician – I didn't try to do it myself. When my tooth hurts, I don't turn to Charlie. Similarly, when it comes to giving money away sensibly, I let people who are smart, energetic and passionate do it. I want to give the claim checks to someone who can follow generally what I would do myself if I were to do it myself.

Munger: I think it's perfectly great for shareholders that you're letting someone else give away the money.

Buffett: For the smaller grant requests, I send them to my sister Doris, who likes to handle them.

As far as I'm concerned, I haven't given up anything. Someone who gives up an evening out or a lot of time or a trip to Disneyland because they donated to a church or whatever, they have given away something. I haven't changed my life. I can't eat any better or sleep any better, so I haven't really given up anything.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

[Q - What are the joys of giving or the pitfalls of donating money?]

WB: I've never given up anything that made a difference to me. There are people that drop in the collection plate an amount that makes a difference in their lives. I've never given a penny that way. I've lived a long time, which gives you a huge advantage in accumulating money. I'm giving away excess, not necessity. What I am doing is useful, but it isn't on a par with people who give real money. Doris [Doris Buffett, Warren's older sister] gives away money and time which is a real cost—she gives help beyond the money. She is retail; I am wholesale. You should give to things that you personally have interest in. I won't prioritize your giving.

CM: Regarding pitfalls, I would predict that if you have an extreme political ideology, you are very likely to make a lot of dumb charitable gifts.

WB: If you hang around Charlie enough, you get the sunny side of life. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Would you rather have dinner with John Adams or Ben Franklin?

Munger: John and Abigail Adams were wonderful people.

Buffett: Did you know them personally, Charlie? [Laughter]

Munger: But if you wanted a lovely evening, you'd like Franklin. I think I have too much Adams and not enough Franklin.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

Why do you support Planned Parenthood?

[The questioner attacked Buffett's charitable support of Planned Parenthood and was roundly booed.]

I think Planned Parenthood is a terrific organization. I really think it's too bad that for millennia women, not only in the U.S. but over the world, have involuntarily had forced upon them the bearing of babies, generally by governments run by men. [Applause]

I think it's an important issue that doesn't have a natural funding constituency – it's not like putting your name on a hospital. I think if we'd had a Supreme Court with nine women on it from the beginning, I don't think a question like yours would even be asked. I think it's wonderful that women can make reproductive choices. I hope you'll respect my opinion as I do yours. [More applause]

- *Source: BRK Annual Meeting 2007 Tilson Notes*

- *URL:*
- *Time: 2007*

back to the questions.

What is the best question you've ever been asked?

I guess the best question I've ever asked is my wife to marry me. Her answer might have been her worst! [Buffett paused for a moment] Why don't you tell me the best question you've ever been asked and I'll answer it? The best questions ask what I've learned about life over the years. You can't know those answers when you're young. For both men and women, the most important decision you'll ever make is your choice of spouse. The most important job is raising children. The first five years are very important in a child's life. The Gateses do a good job raising their children and have thought about it a lot.

- *Source: Univ. of Kansas MBA Student Meeting*
- *URL: http://boards.fool.com/more-buffett-notes-23675392.aspx?sort=whole#23675392*
- *Time: Dec 2005*

back to the questions.

Has there been any question that you haven’t been able to get a comfortable answer to that also can’t go in the “too difficult” pile?

Buffett: You may have just asked one.

Munger: If you have a child dying of a terrible disease, you can’t just put it in the “too difficult” box. There are a lot of things you can’t just put aside. But in investing, you can do this.

Buffett: With WMDs, you can’t just put it in the “too hard” box. You have to wrestle with it because if you even reduce the probability a tiny bit, it is good. You hope you don’t have too many like that.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

back to the questions.

How do you maintain your good mental and physical health?

WB: [Holding up a piece of See's candy] You start with a balanced diet — See's, Mars, and Coke. [laughter] If Charlie and I can't have a decent attitude, who can? We get to do what we like every day, and we work with people who love to do what they do. We are not forced to do what we don't want. I get to do what I like every day. We are very blessed in so many ways. How could you be sour? Charlie is 84 and I am 77. We have slowed down, but we pretend we haven't. There is no reason to look at the minuses in life. It would be crazy. We count our blessings. Not much more to it than that.

CM: I wish we were poster boys for the benefits of running marathons with slim bodies, but as much as you can tell, we don't pay attention to health advocates and dietary rules. I for one don't plan to change.

WB: From the moment we get up, until we go to sleep, we are associating with wonderful people. We are biased. We live in the best country in world. We could have stayed in my grandfather's store and it would have been terrible.

CM: If you are in a job you would pay to have, and you are supposed to be an exemplar — there is a lot to be said for not paying yourself very well.

WB: On corporate compensation, the idea that you have to pay someone $10 million in pensions just to keep him around... there's something wrong in that.

CM: Executives should volunteer to get paid less, as they would stay in their jobs at a quarter or half of their pay and would not be able to get better jobs elsewhere.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Your comments on Phil Fisher?

Phil Fisher was a great man. He died a month ago, well into his 90s. His first book was Common Stocks and Uncommon Profits in 1958. He wrote a second book, and they were great books.

You could get what you wanted from the books (I only met him once). Like Ben Graham, it was in the books – the writing was so clear, you didn't need to meet them.

I thoroughly enjoyed meeting him. I met Phil in 1962. I just went there. I'd go to New York and just drop in on people. They thought that because I was from Omaha, they'd only have to see me once and be rid of me. [Laughter.] Phil was nice to me. I met Charlie in '59; he was preaching a similar doctrine, so I got it from both sides.

[CM: I always like it when someone attractive to me agrees with me, so I have fond memories of Phil Fisher. The idea that it was hard to find good investments, so concentrate in a few, seems to me to be an obviously good idea. But 98% of the investment world doesn't think this way. It's been good for us – and you – that we've done this.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

back to the questions.

What do you think and know about Carlos Slim?

WB: We had lunch 15 years ago, and it was pleasant. Outside of that visit and what I read in the newspaper, I don't know much about him.

CM: You speak to the total knowledge of both of us about Carlos Slim.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Do you believe in Jesus Christ?

WB: I am an agnostic.

CM: I don't want to talk about my religion.

WB: Being an agnostic, I don't have to have an opinion.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Is it fun inventing something that inspires young kids?

This question reminds me of Thomas Edison who was a great inventor. He invented many things including the electric light bulb. Edison said, "I never did a days work in my life. It was all fun." I feel the same way, so I guess my answer is "yes, with a big exclamation point!"

- *Source: Secret Millionaire's Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

I know you like baseball. My favorite team is the Chicago Cubs. Would you like to buy the Chicago Cubs from Sam Zell? Is it a good investment?

WB: It's been a good investment. Earnings haven't gone up so much, though cable [television] expanded the stadium. There were 40,000 seats in 1939, and cable multiplied seats in a huge way, and a lot of it went to the players, but some stuck to the owners. When I was your age, I thought I would buy a team. If the Cubs sell for $700 million, I don't think I would buy at that price—but there is a psychological income to some owners. It is a way to instant celebrity. A certain percentage of people want the route to that life. Many people have loads of money. I've had calls from others about the Cubs. I think I will leave that to you.

WB: Charlie is a harder sell. I might do something like that.

CM: [Referring to Buffett's minority stake in the Omaha Royals—the Triple-A affiliate of the Kansas City Royals baseball team] You have already done it once.

WB: Touché. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Will you share what or who had the biggest influences on you?

WB: My biggest educator was my father. It is important who you marry. Those are great teachers. Ben Graham, Dave Dodd. I devour books. Charlie likes Ben Franklin. My grandfather at the family grocery store. The most important job you have is to be the teacher to your children. You are the big, great thing to them. You don't get a rewind button. You don't get to do it twice. Teach by what you do, not what you say. By the time they get through formal school, they would have learned more from you than from school. Provide warmth and food and everything else. It won't change when they get to graduate school — and you get no rewind button. You teach with what you do, not what you say.

CM: Differing people learn in differing ways. I was put together to learn by reading. If someone is talking to me it doesn't work as well. With a book, I can learn what I want at a speed that works. It works for my nature. For those people who are like me, welcome, it is a nice fraternity.

WB: [Speaking to Charlie] Did you learn more from your father? Your father probably had more impact on you before your readings?

CM: My father did have an impact. He always took more than his share of work and risk—that was helpful. The conceptual stuff—I learned from books. Those authors are fathers in a different sense.

WB: If you keep reading books, you'll learn a lot. If you read 20 books, you can learn a hell of a lot. Having the right parents is very lucky. If you get the right spouse too, that's just doubling down.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

You have said that your assistant pays a higher tax rate than you does and that to be equitable the tax rate should be higher on you than on others. In reality, the bulk of estate will not be taxed due to your charitable donations. How do you change the system so people like you pay more tax?

Buffett: A wealth tax is an answer. If you want to give away all of your money it is a great tax dodge. People should give away all their money because the money could do a lot of good. In the US, if we spend 25% of GDP then we cannot keep taxation at 15% of GDP. Two classy people are heading up the deficit commission--Erskine Boles and Alan Simpson. They are going to have to recommend higher taxes and lower expenditures and after that they won't be popular. We won't be able to increase taxes on lower income people so it's going to be a tough equation to solve.

Take BRK shares for example: I will not ever sell a share. I have everything I needs in my life and because BRK does well I can give shares away. Some people might suggest that I should give money away to the federal government instead. But in reality we would not want to give that money to the federal government [implying that it would not be used efficiently].

Munger: Those who worry about Warren's taxes are wasting their time. Warren will have left it all when he dies.

- *Source: BRK Annual Meeting 2010 Claremon Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Could you please share your views on why legislators should not change the inheritance tax law?

Well it's not a death tax. 2.2 million people die in the US and out of that only 4,000 estates will be taxed. The federal government collects $30 billion in tax revenue per year from estate taxes and a high percentage of the heirs of these estates will receive $50 million or more.

We have to ask ourselves what is the proper tax policy for our society. Let me illustrate with a game. Imagine 24 hours before your birth a genie comes to you and lets you design the world into which you will come. You define all of the political, economic, and societal facets of the world. But there is one catch. You have to draw a ticket from a pool of 6 billion. On this ticket will be your characteristics in this world, i.e. if you are born in the US or Bangladesh, if you are male or female, black or white, retarded or normal, etc. What would you do? You would design a world with rules that would initially foster abundance. A world that produces lots of output where everyone is productive. You would create an abundant society. Secondly, you would want justice. You would want the output to be spread out. You would design a world where there was freedom from fear, freedom from fear of old age. You would want equality of opportunity, a market system, and that the best people were in the right places. You would want a world that would take care of the people who got the bad tickets. This has nothing to do with religion, I'm agnostic. At the time that I was born, the odds were about 50 to 1 that I was born in the United States. I won the ovarian lottery.

You would make sure all of the lucky tickets are incentivized to keep working. Also you would want others to have equality of opportunity, not equality of outcome though. One bigger thing would be a good system of the rule of law. You would also want to make sure you have people in the right places according to their talents. You would also want to help others that have no opportunity. I could set it up so that my descendants would not have to work for ten generations. So I would end up effectively taking my descendants out of the pool of proactive people. The descendants of wealthy people could potentially become welfare recipients. Lots of families (I won't name names) create dynasties where society contributes to them just because they are part of the "lucky sperm club". Instead of using food stamps, they would have stocks and bonds. The estate tax modifies the ability to create a family dynasty that takes the descendants out of the work pool, the group of productive citizens.

We all participated in the ovarian lottery, it's probably the most important thing we have ever done. In fact, you all are in business school, you are pretty smart and you have a bright future ahead of you; if you had the chance to trade in your lottery ticket for the chance to pick 100 tickets of which you would have to take one. Would you do it? I would argue you should not. Out of the 100, only 4 or 5 would be born in the US. Out of that only not many would be headed on the path you are headed down. So we are part of the top 1% in society, we are pretty lucky. My descendants are part of the top 1 tenth of one percent of society. This means that you are in the luckiest 1% of the world.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

back to the questions.

Is all your media exposure the best use of your time?

WB: Probably not. But there are a lot of things I do that aren't. I play 12 hrs of bridge a week, and that isn't good for shareholders either! If you want a record of things, I would much rather have a record on Charlie Rose where people can go back to it. I like the idea of being judged by my own words, rather than someone trying to write a few words and summarizing me. That versus a one hour interview where reporter is shopping for a few quotes to fit – I prefer TV. I like the accuracy of the reporting. Best use of time? It works fine. One story however, because TV isn't perfect – you have to be careful on a broadcast. Charlie Rose did interview and taped me on Friday morning. During tape they were showing great railroad scenes, including a montage of railroad movies with Marilyn Monroe in Some Like It Hot and Grace Kelly. Then he asked me some question – and I said I would have paid more [for BNSF] if they included Marilyn Monroe and Grace

Kelly. But the recording ran 106 minutes and they took out the montage of Grace Kelly and Marilyn – but left in my response -- it looked like I had come up with this out of the blue!

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

Career and Life Advice

I worked in the paper and packaging business this past summer and really enjoyed my experience. None of my classmates are interested in the paper business and the company I worked for has not had MBA interns in years. Clearly the paper business has its challenges, but do you see this as an opportunity or a roadblock?

Well, you've got it right that the paper business is challenged. High capital intensity, low margins, cyclical. It is a brutal business; no one cares who made the box their Dell computer came shipped in. In general, commodity businesses, even you're the low-cost producer, are difficult. There are generally two recommendations I offer to college and business school graduates. The most important thing about where you work is that you admire/love it. So it sounds like you liked your experience, and that's great. But we come to my second recommendation, which is to get on the right train; that is, moving in the right direction. There's no course in business school called "Getting on the Right Train", but it's really important. You can be an average passenger but if you get on the right train it will carry you a long way. You want to learn from experience, but you want to learn from other people's experience when you can. Managing your career is like investing - the degree of difficulty does not count. So you can save yourself money and pain by getting on the right train.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

back to the questions.

What is the value of good leadership skills and ethics in business?

I have seen plenty of people succeed that don't have either one. And I have also seen an awful lot of people succeed that do; and those are the ones I admire and they are the ones I want to associate with. Honesty is a terrific policy. What do you look back on in terms of whether you have been a success? You have certain things you want to achieve, but if you don't have the love and respect of peo- ple, you are always a failure. That is the one thing you must earn, it can never be bought. No one that has the love and respect of others is ever a failure.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

What advice would you give students who are preparing for a business career?

My advice generally is to sop up everything you can. You're not going to run out of storage room in your brain, so take advantage of everything that is of interest. You will never have another opportunity like this in your lifetime.

I ask students what they would do, if when they were sixteen, a genie came to them and told them that they could have the car of their dreams. The only catch is that it is the only car they will ever have. I know what I would do; I would study the owner's manual until I had it memorized, and do everything I could to keep the car in the best shape possible. When you are sixteen, you only have one brain and one body and that is all you are ever going to get.

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

What advice would you give students who are just starting out in a business career?

I would say, follow what you are passionate about. I think it is crazy to be someplace where you feel your ethics or whatever is out of sync with your work. You really want to be in a place where you jump out of bed in the morning and you are all fired up to get to work. I have always felt that way, basically,

- *Source: University of Nebraska Business Magazine*
- *URL: BuffettNebraskaBusiness.pdf*
- *Time: 2001*

back to the questions.

At the Wesco annual meeting last year, Charlie said, "The best way to get success is to deserve success". Do you recall anything from your experience which best demonstrates how you were able to position yourself to deserve success, and do you have any advice for students on how they can position themselves to deserve success as well?

Behaving decent is a large part of it. Out of school I offered to work for Graham for free and he said I was overpriced. I tried to be useful and visible to him. I gave him stock tips and kept up with him. Almost always good things come from good behavior. Don’t keep score in life. Tom Murphy does not keep score. He keeps doing 20 things for me and I can only hope to return the favor. Keeping score is terrible in marriage and terrible in business. I put myself in the seller’s shoes. With most humans there is a great desire to reciprocate. If you do something for them, they will do 2X for you. How rare is it to work during lunch hours and be the first one there in the morning. You’ll get noticed if you do something extra. It’s good to have a willingness to pitch in when you aren’t going to get credit for it. Charlie and I partnered up in 1959. We always both think we’re right. We disagree but we’ve never fought. And we’ve never held past mistakes over each other’s heads. I recommend reading “Poor Charlie’s Almanack”. It’s amazing, has sold 50,000 copies and it’s still sold independently.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

What advice would you give the average person in the U.S.?

It's hard to give advice to someone who might lose their job. My Dad went to work on August 13, 1931 to find out the bank where he worked and held all our money had closed. He had no job and no money and two kids. You want to be as prepared as you can and you just don't want to have debt. Medical problems cause a lot of the grief and lots of credit card debt. Credit cards are poison. If you make a dollar, only spend 95 cents, not $1.05. You should be ahead of the game all the time rather than behind as it is harder to work your way out of a hole. You want to play the game from strength, and you have to think ahead. People don't always want to hear advice when things are going well. People risked everything they had and needed for something they didn't have or need. Charlie once said, "The problem isn't getting rich, it's staying sane.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

back to the questions.

What general advice would you give to students?

I would like to talk for just one minute to the students about your future when you leave here. Because you will learn a tremendous amount about investments, you all have the ability to do well; you all have the IQ to do well. You all have the energy and initiative to do well or you wouldn't be here. Most of you will succeed in meeting your aspirations. But in determining whether you succeed there is more to it than intellect and energy. I would like to talk just a second about that. In fact, there was a guy, Pete Kiewit in Omaha, who used to say, he looked for three things in hiring people: integrity, intelligence and energy. And he said if the person did not have the first two, the later two would kill him, because if they don't have integrity, you want them dumb and lazy.

We want to talk about the first two because we know you have the last two. You are all second-year MBA students, so you have gotten to know your classmates. Think for a moment that I granted you the right--you can buy 10% of one of your classmate's earnings for the rest of their lifetime. You can't pick someone with a rich father; you have to pick someone who is going to do it on his or her own merit. And I gave you an hour to think about it.

Will you give them an IQ test and pick the one with the highest IQ? I doubt it. Will you pick the one with the best grades? The most energetic? You will start looking for qualitative factors, in addition to (the quantitative) because everyone has enough brains and energy. You would probably pick the one you responded the best to, the one who has the leadership qualities, the one who is able to get other people to carry out their interests. That would be the person who is generous, honest and who gave credit to other people for their own ideas. All types of qualities. Whomever you admire the most in the class. Then I would throw in a hooker. In addition to this person you had to go short one of your classmates.

That is more fun. Who do I want to go short? You wouldn't pick the person with the lowest IQ, you would think about the person who turned you off, the person who is egotistical, who is greedy, who cuts corners, who is slightly dishonest.

As you look at those qualities on the left and right hand side, there is one interesting thing about them, it is not the ability to throw a football 60 yards, it is not the ability the run the 100 yard dash in 9.3 seconds, it is not being the best looking person in the class, they are all qualities that if you really want to have the ones on the left hand side, you can have them.

They are qualities of behavior, temperament, character that are achievable, they are not forbidden to anybody in this group. And if you look at the qualities on the right hand side the ones that turn you off in other people, there is not a quality there that you have to have. You can get rid of it. You can get rid of it a lot easier at your age than at my age, because most behaviors are habitual. The chains of habit are too light to be felt until they are too heavy to be broken. There is no question about it. I see people with these self-destructive behavior patterns at my age or even twenty years younger and they really are entrapped by them.

They go around and do things that turn off other people right and left. They don't need to be that way but by a certain point they get so they can hardly change it. But at your age you can have any habits, any patterns of behavior that you wish. It is simply a question of which you decide.

If you did this... Ben Graham looked around at the people he admired and Ben Franklin did this before him. Ben Graham did this in his low teens and he looked around at the people he admired and he said, "I want to be admired, so why don't I behave like them?" And he found out that there was nothing impossible about behaving like them. Similarly he did the same thing on the reverse side in terms of getting rid of those qualities. I would suggest is that if you write those qualities down and think about them a while and make them habitual, you will be the one you want to buy 10% of when you are all through. And the beauty of it is that you already own 100% of yourself and you are stuck with it. So you might as well be that person, that somebody else.

- *Source: Lecture at the University of Florida School of Business*
- *URL:*
- *Time: October 15th 1998*

First of all, I'd say marry the right person. And I'm serious about that.It will make more difference in your life. It will change your aspiration, all kind of things. It's enormously important who you marry. Beyond that, I would say that do what you would do if you were in my position, where the money means nothing to you. At 79, ... I work every day. And it's what I want to do more than anything else in the world. The closer you can come to that early on in your life, you know the more fun you're going to have in life and really the better you're going to do. So don't be driven where you think the last dollar is presently or anything of that sort. And then also go to work, if possible, for an organization or an individual that you admire. I mean I offered to go to work for Ben Graham because there was nobody I admired more in the business than him. I didn't care what he paid me. When he finally did hire me in 1954, I moved from Omaha to New York and I didn't know what I was getting paid until I got my first paycheck. But I knew I wanted to work for Ben Graham. And I knew I would jump out of bed every morning and be excited about what I would do and I would go home at night smarter than I was in the morning. Go to work at a job that turns you on and a person that turns you on and institution.

back to the questions.

- *Source: Buffett & Gates at Columbia Business School*
- *URL:*
- *Time: November 12th 2009*

What graduate school would you recommend and whom would you recommend to study with in the area of investments?

I would recommend Bruce Greenwald, Columbia University. He brings practicality into the studies. University of Florida and the University of Missouri have a good curriculum. It is always good to check with recent graduates.

[CM: There are courses at Stanford with Jack MacDonald. They are a clan of their own and they are right but you learn a lot about things that Warren and I do not believe.]

- *Source: BRK Annual Meeting 2001*
- *URL:*
- *Time: 2001*

back to the questions.

What's the best way to prepare for the future?

Imagine that you had a car and that was the only car you'd have for your entire lifetime. Of course, you'd care for it well, changing the oil more frequently than necessary, driving carefully, etc. Now, consider that you only have one mind and one body. Prepare them for life, care for them. You can enhance your mind over time. A person's main asset is themselves, so preserve and enhance yourself.

- *Source: BRK Annual Meeting 2002 Tilson Notes*
- *URL:*
- *Time: 2002*

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Importance of maths? Why does math reflect reality?

It's just the way it is. If you want to understand science, you have to understand math. In business, if you're enumerate, you're going to be a klutz. The good thing about business is that you don't have to know any higher math.

It may be an advantage not to know it.

[CM: Yes, it is. If you know it, you feel the need to use it.]

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

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Are there any up-and-coming role models we should study?

You don't have to study anyone new. Just study people like Tom Murphy and Don Keough [of Capital Cities/ABC and Coca-Cola, respectively]. If you learned the management lessons of Tom Murphy, you don't need to learn any other lessons.

[CM: We're not following the examples of any 40-year-old investors.]

I didn't know there were any 40-year-old [hedge-fund managers] – I thought they were all 25. [Laughs]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Can you comment on the student visits to Berkshire? and more widely on investment education?

I will have in this school year close to 40 schools visit. They usually double up, because 20 days is about all I can handle. They offer good ideas and I'm offering two B shares, not the usual one, if I buy a company they recommend – a special one-time offer!

Twenty-five years ago, schools tended not to stray too far from the efficient-markets orthodoxy that not only wouldn't do students any good, but might even get them in trouble. I think it's better today. Prof. Hirschey has done a great job at [the University of Kansas]. Missouri, Florida, Columbia [Bruce Greenwald and others], Stanford [Jack McDonald] – a lot of schools – have people in those departments who are doing a great job.

My experience with the students is that they generally have their heads screwed on right.

I enjoy all the students coming out, but they all think they're going to get rich by following in our footsteps. It troubles Charlie even more than I how much brainpower is going into money management.

An awful lot of students say they want to run a hedge fund. It's hard to imagine a world in which everyone's running a hedge fund. I don't know what we'd do for clothing and food.

[CM: I've heard that one-half of the students at elite schools want to go into private equity or hedge funds. They want to keep up with their age cohorts at Goldman. This can't possibly end well in terms of meeting these expectations.]

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

What should I do with my life?

We prefer questions that are harder. [laughter]

- *Source: BRK Annual Meeting 2008 Boodell Notes*

- *URL:*
- *Time: 2008*

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What advice would you give to the quieter, introverted population, in order to raise their visibility and gain the recognition they deserve?

WB: I avoided all classes that had public speaking; I got physically ill if I had to speak. I signed up for a Dale Carnegie course. I gave them a check for $100, and then I went home and stopped payment on the check. I was in Omaha, and finally took $100 cash to Wally Kean. I took that Carnegie course, and then I went to the University of Omaha to start teaching— knowing I had to get in front of people. Ability to communicate in writing and speaking—it is under- taught—and enormously important. If you can communicate well, you have an enormous advantage. Force yourself into situations where you have to develop those abilities. It helps to do it in front of similar people to start. At Dale Carnegie—they made us stand on tables. I may have gone too far. You are doing something very worthwhile if you are helping introverted people get outside of themselves.

CM: It is a pleasure to have an educator come along who is doing something simple and important rather than foolish and unimportant.

WB: I hope he won't name names [laughter].

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

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I'm 12 years old. There are a lot of things they don't teach you in school. What things should I be looking into?

WB: I'd read a daily newspaper. You want to learn about the world around you. Bill Gates quit at letter P in the World Book Encyclopedia. Just sop it up, and find what is most interesting to you. The more you learn, the more you want to learn. It is fun.

CM: My suggestion is that the young person asking the question has already figured out how to succeed in life.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

I have four children. Can you give them advice about keeping up with the Joneses?

WB: Just keep up with the Buffetts. [laughter] We've always been fans of living within your means and income. You'll have a lot more income later on. They will follow the example of their parents. You shouldn't increase your cost of living without improving your standard of living. If you go too tough on children, they go crazy later on. There are plenty of people I don't advise to save. If you already have money in a 401(k) and Social Security and have a little left over, who is to say you should give up taking your children to Disney World and the associated happiness now for a 30-foot boat later vs. a 20-foot boat later. There are benefits to spending now. It is not always better to save 10% than 5%, but definitely better than spending 105%. You need to live a life that is true to yourself. We don't encourage extreme frugality. You are not a better or worse person if you live differently from your neighbor.

CM: The best method is to train your child.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

What exactly does it mean to be financially successful? How can one properly prepare themselves for the economic future?

Financially successful can mean many things. I believe a good definition is having sound financial habits which will enable you to have enough money to meet all your needs, as well as, unexpected events which might appear. One can best prepare themselves for the economic future by investing in your own education. If you study hard and learn at a young age, you will be in the best circumstances to secure your future. Somebody is sitting under a tree in the shade today, because somebody planted a seed long ago.

- *Source: Secret Millionaire's Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

I started babysitting and I am really happy to get the money and put it in my saving's account but I want a raise. How should I ask?

Write down all of the reasons why you believe you deserve a raise. Some of the things which will be important to demonstrate are reliability, honesty, and dependability. You might also be able to demonstrate that other people in the neighborhood are being paid more than you for the same service. Then go visit your employer and present your case. The better prepared you are to present your position, the more likely you will be successful. Good luck!

- *Source: Secret Millionaire's Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

How can I figure out what to be in life if there are so many choices?

Excellent question! My suggestion is to find something you enjoy. It doesn’t matter what it is. You can be a banker, a police officer, a doctor or a railroad engineer. Whatever you choose, if you enjoy what you do, you will never look at it as work!

- *Source: Secret Millionaire's Club*

- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

back to the questions.

My mom says I should save my money, but I want to buy a video game. What do you think?

Your mom is trying to teach you a very valuable lesson in business: the importance of saving. No business can grow and be successful if they spend their money as fast as they make it. And even if you only save a little bit, over time it will grow and grow and soon you'll be able to buy as many video games as you want! In the meantime, what about finding a part-time job or asking your parents if there are extra chores you can do at home to earn some extra money?

- *Source: Secret Millionaire's Club*
- *URL: http://www.smckids.com/ask-warren/all-questions*
- *Time: 2010*

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I teach at a community college in Florida, teaching students to invest in themselves. Financial independence and freedom. Slow and steady wins the race. Law of reciprocity. Etc, etc, etc. What else should I be doing?

WB: [Laughing] I’m ready to hire your entire class right now. The most important investment is in themselves. Potential horsepower is rarely achieved. Just imagine you are 16 and your parents are going to give you the car of your choice. But the catch is that it is the only car you would get for the rest of your life. How would you choose to proceed? Of course, you will read the manual 5 times. How would you treat it? You’ll keep it garaged, change the oil twice as frequently as you’re supposed to, and keep rust to a minimum because you know it needs to last a lifetime. I tell students that you get only one body and one mind. You’d better treat them the same way. It’s hard to change habits at age 50 or 60. Anything students do to invest in body and mind is good, particularly in the mind. We didn't work too hard on bodies around here. It pays off in an extraordinary way. The best asset is your own self. You can become, to an enormous degree, the person you want to be. When I talk to university classes, I ask them to buy one classmate to own [his or her earnings] for the rest of their life. They would pick the person not with the highest IQ, but the ones who are the most effective; the ones you want to be around. These people are easy to work with, generous, on time, don't claim credit, help others. Those are good habits to develop. Leaders are effective because people want to be around them.

CM: I have a specific suggestion that I would add to your extensive repertoire. I would teach them to avoid being manipulated by vendors and lenders by using their own tricks against them. Cialdini has a new book—it is called Yes! It is not as good as Influence, but I recommend it and recommend adding both of those books to your repertoire.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

What advice do you give to young entrepreneurs? I am starting a business, and I want it to be successful. Aristotle, when asked definition of wealth, said it is he who spends less than he earns.

WB: I predict you are going to build one. If you start with that principle you enunciated, and there are similar principles. There is nothing like following your passion. Managers -- some went to business school, some didn't. The common factor is they love what they do. You have to find that in life. It was dumb luck my Dad was in securities business. I got entranced with that. If you find something that turns you on, you'll do well in it. There isn't that much competition. There won't be many that run faster than you in the race you ELECT to run. If you haven't found it yet, keep looking. We had 70 managers, and some didn't go to high school. Mrs B didn't do a day of school in her life. NFM is 78 acres, 400m of sales, largest furniture store in USA, with $500 of capital paid in.

She couldn’t read or write and never went to school a day in her life. In her 90’s she invited me over to her house for dinner, which was very unusual. The couches and tables in her house - they all had price tags – it made her feel at home! “The power which resides in him is new in nature, and none but he knows what that is which he can do, nor does he know until he has tried.” Emerson. Find your passion and don’t let anything stop you.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What's a good thing to buy and than sell for a profit? For example candy or something in that nature?

I always advise people to get involved in a business they understand. Whether it is candy, car washes or lemonade, doesn't matter. When you buy something and sell it for a profit, you need to make sure that you are adding value to justify the increased price. That is where the profit will come from. If you start a lemonade stand for example, you can buy your lemons and your sugar and materials for a certain cost. When you make them into lemonade, you will charge more than your original cost because your labor has created a new product from the original materials. Do something you know and like, and it will never be work.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions/*
- *Time: 2010*

back to the questions.

I want to start my own business, what should I do? A car wash?

The most important thing is that you find something you enjoy doing. If you're not happy doing your job, you won't be successful. If you enjoy washing cars, that can be a terrific way to earn some extra money. Whatever you do, be sure to provide a good service at a fair price.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions/*
- *Time: 2010*

back to the questions.

What are the best ways for a 10-year-old to earn money?

That was a subject I gave a lot of thought to when I was 10. You're probably a little young to deliver papers. I got half my capital from that – I liked it because I could do it by myself. You can do it when you're 12 or 13. I tried 20 different businesses by the time I got out of high school. The best was a pinball-machine business, but I wouldn't recommend it now.

I saw a study that correlated business success with a range of variables like grades, parents, whether one attended business school – and they found it correlated best with the age at which you first started in business. You see this in athletics and music as well.

Look for what people don't want to do for themselves. Ask around, see what other kids have done. A paper route is a good idea.

If some people in debt worked an extra one-and-a-half hours a day, they could pay off their debt.

Munger: When I was young, I read The Richest Man in Babylon, which said to under-spend your income and invest the difference. Lo and behold, I did this and it worked. I got the idea to add a mental compound interest too, so I decided I would sell myself the best hour of the day to improving my own mind, and the world could buy the rest of the time. It sounds selfish, but it worked.

If you become very reliable and stay that way, it will be very hard to fail in doing anything you want.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*

- *Time: 2007*

back to the questions.

Partly because of marrying well, I am able to manage the money of my husband and myself full time. I wanted to ask a diversification question. Each of us has a traditional and a Roth IRA. Should the assets in those accounts be separated, or managed as a single entity?

WB: Sounds like your marriage will last. Think of it as one unit. Don't worry about the location of assets. Just look at the whole picture. Don't treat them as separate pots. I don't think about what entities things are in. With that, I'll turn it to our marital expert, Charlie Munger.

CM: Taxable income may be more suitable for a tax-deferred account. Apart from that, put it all in one pot.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Imagine you are investing with small sums of money at 30 years old, with your first $1 million. Your savings can cover expenses for 18 months. You are not a full-time investor. What advice do you have, please be as specific as possible. What asset classes and what percents?

WB: Put it all in a low cost index fund. Vanguard. Reliable, low cost. If you're not professional, you are thus an amateur. Unless bought during strong bull market, that investment would outperform bonds over a long period of time and I would forget it and go back to work.

CM: The great horde of professionals are taking croupier profits out of the system, and most of them are pretending to be experts. If you don't have prospects as a professional investor, do an index fund.

WB: No one will give you that advice since it doesn't make anyone money. You will get a good return. Why should you expect more than that when you don't bring anything to the party?

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

The Big Picture

What do you believe are the greatest successes of capitalism?

Of the clear successes of capitalism, a greater abundance of things we want and need, and considerable improvements in the standard of living are good candidates. The standard of living in the U.S. has increased almost seven fold in the last century. One century is a speck on the greater timeline, and such an increase in productivity in the standard of living is surely unprecedented. Another noteworthy success of capitalism is that it is surely better than any alternative system at allocating resources and getting the best people to their most appropriate places. Consider this: in 1790, the first global census was conducted; there were 290m people in China, 100m in Europe, and 4m in what is now the U.S. Now the U.S. holds 4.5% of the world's population but is responsible for 30% of global GDP. I believe the great American book is yet to be written and will be the one that manages to capture how spectacular this growth has been; again 214 years is just an instant. When we think about such growth, I don't believe the causal factors are the people; it must be the system. The smartest people in Guam are as smart as the smartest people in Iceland are as smart as the smartest people in the U.S. Being born in the U.S. is more important to my success than anything that has happened since.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

back to the questions.

What do you see as the shortcomings of capitalism?

Capitalism, like any system, is imperfect, but it's getting better and we're getting closer to goals such as equality of opportunity and learning how to deal with those that are hurt by the system. But capitalism is surely a free marketplace, a dog-eat-dog marketplace in many ways. And a marketplace implies losers. Early in my career, I bought a textile mill in New Bedford and the vast majority of the mill workers were Portuguese and could not speak any English. Over time, textile mills in other parts of the world were able to operate more efficiently and we simply could not compete. I had to shut the plant down and fire everyone; the workers were casualties of the system. You can't retrain or save those people; they'd had it. So the real challenge with capitalism is that you can't throw sand in the gears of greater output but you also want to care for the casualties. If you look around, it's clear that most people are burdened with real fear; fear is terrible and people shouldn't have to live with it. We should want to reduce societal fear of the things that they should never have to worry about - fear of going hungry, fear of going without medical care. These are the problems you should be thinking about solving.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

back to the questions.

How should we take care of those who are harmed by the system, like your former textile mill workers?

I would start with the tax system. It would not be easy to implement, but some form of a steeply progressive consumption tax for the wealthy makes a lot of sense to me. For instance, when I fly my private jet I use hundreds of gallons of jet fuel but I'm not taxed at a higher rate. Flying in a private jet is usually unnecessary, excessive consumption and

I should be taxed appropriately via a higher consumption tax. Here's another example: I could easily hire 20,000 people and pay them $50,000 per year to sit here and paint portraits of me all day in search of the perfect one. Not only would that be ridiculous, but it would pull 20,000 productive contributors out of system and I should pay highly for that. Other than figuring out ways of reallocating money to the 'bottom 20%,' we need to focus on finding ways to help people be useful and feel useful. This means finding people jobs, keeping them involved in society, and the like.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*
- *Time: 2005*

back to the questions.

With the recent changes in the global political economy and surges in terrorist activity, some would argue that uncertainty is increasing for all types of global markets. Where do you think things are heading and how should we deal with this heightened uncertainty?

Human beings don't change very much over time. But until recently, most dangerous people had limited ability to harm others in scale.... I think the terrorism issue is one problem to which there is clearly no solution. I'm confident that we'll solve everything else out - we making progress on cures for major diseases and all that - but terrorism, it seems to me, is impossible to solve because there will always be troubled people seeking to do harm to large masses of people. The intent is surely there. And knowledge of how to inflict terror is spreading. If you have intent and knowledge, the third aspect of terrorism is 'materials and deliverability.' This is harder to come by for the terrorists and what we should be working to prevent. If I knew we could devise a solution to terrorism, I would dedicate 100% of my foundation's funds to this effort; but I'm just not sure there's a solution.

- *Source: 2005 Tuck School of Business Trip to Omaha*
- *URL: http://www.thinkfn.com/wikibolsa/Visita_a_Warren_Buffett*

- *Time: 2005*

back to the questions.

What kind of impact will the demographic shift (i.e. baby boomers) have on the United States?

We aren't big on demographic trends. It's difficult to translate that information into profitable decisions. It is hard to figure out what businesses will prosper in the future, based on macro trends. See's candy is for anyone and Fruit of the Loom is for people who need underwear today. We want to be right on something that will work right now, not something that might work in the future. I doubt that Wal-Mart spends a lot of time on demographics. They instead focus on where to put the store and what to put on the shelves. I've never found those kinds of stats useful. People were all excited to go into stocks 6 years ago, but it wasn't because of demographic trends.

[Warren then referred to a recent WSJ article written by Jeremy Siegel that discussed funds flowing out of investments because baby boomers will need to cash in their investments during retirement. He said he respected Siegel, but he doesn't find fund flows data useful.]

- *Source: Student Visit 2005*
- *URL: http://boards.fool.com/buffettjayhawk-qa-22736469.aspx?sort=whole#22803680*
- *Time: May 6, 2005*

back to the questions.

Do you believe that the Federal Reserve is fostering moral hazard thereby leading to the misallocation of capital and subsequent asset bubbles? If so, what are the long term risks?

There is always some introduction of moral hazard when government decides to act in favor of the common good versus letting someone fail. There was moral hazard with the bailout of LTCM and there is some aspect of that with the current situation. But it’s hard to measure because the consequences are 15-20 years out. During the 1987 market crash, Greenspan was new to the job and unsure of what would happen. The specialist system got hit, most of them operated on very little capital and were broke. The Fed provided them with more capital. Will that change future behavior? Maybe, but at the time it was the right call. It's also resulted in the "Too Big to Fail" doctrine. The big banks, Freddie Mac, and Fannie Mae figured the US Government wouldn't allow them to fail and the managements of those companies knew that. I would be disinclined to second guess the Fed, they have more information and are trying to do what's right.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

Could you comment on the current rise of sovereign wealth funds from theMiddle East and Asia and how they are playing an increasing role in how corporations raise capital. Is competition from these sources for the cash flows of corporations affecting your investment strategies or opportunities?

Any competition is competition. The situation of sovereign wealth funds is interesting. A lot of it is China bashing, OPEC bashing and plays right into politician's hands. Today, the US will buy $2 billion more from the world than they buy from us. In exchange we give them little pieces of paper and they have to buy assets. As long as we consume more than we produce we have to let the rest of the world invest in us. We created sovereign wealth funds and that $2 billion gains interest. US funds feel they can get the best terms from these foreign investors and lately, enticed them into buying equity. China wanted to buy Unocal, a 3rd rate oil producer with production overseas in places like India. US Congress went ape and 395 representatives signed an anti-Chinese resolution to block the deal. For 100 years the US companies went around buying the world's assets and bribing officials, but told China they couldn't buy Unocal. The Chinese took it, but they didn't like it. It doesn't make sense that we are buying foreign assets, and giving them pieces of paper and then telling them what they can't do with that money. We have created them and I have no objection to them. I recommend an index fund for these sovereign wealth funds. It gives them exposure to the US market, but they won't get taken by salespeople with bad deals. In economics you always want to say "And then what?"

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

back to the questions.

It seems that the worldwide trend is towards lower corporate tax rates. Do you think that the US risks becoming less competitive if it maintains its current corporate tax rate?

Relative to GDP, government taxation is 18.5% and spending is 20%, so we borrow the balance. The national debt should not be a scary topic and the fact that it's gone up is fine as long as it's proportional to GDP. Where do we get that 18.5%? There's 2.7 trillion in government revenues. 2.2 trillion comes from individuals, and less than 1% of that comes from the estate tax. 1.1 trillion comes from income taxes, with payroll taxes consisting of 900 billion, but it's capped at the first $100,000 of salary. We want a tax system that encourages greater prosperity, but it needs to take care of the family.

We did an informal office survey by looking at the total tax footprint versus the total income. I earned 46 million and paid a tax rate of 17.5%. My rate was the lowest, the average was 33%, and my cleaning lady paid 40%. The system is tilted towards the rich. The Forbes 400 total net worth has gone from 220 billion to 1.54 trillion, an increase of 7-to-1. You see in legislature that there is lobbying carried on by the powerful over issues such as the estate tax and carried interest for private equity investments. We need to flatten income and payroll taxes, and those making under $30,000 shouldn't be bothered.

Let's imagine that 24 hours before you are born, a genie comes to you and tells you devise a social and economic system. The only catch is that after you designed the system, you would choose a paper from a barrel which would determine your demographics. What objectives would you want? You need to devise a system that creates prosperity. It needs to be a meritocracy, to put the right people in the right place. It needs to have a strong education system, and throw off lots of goods and services. It also needs to not discriminate against women or minorities. Even though the per capita GDP is $47,000, 20% of the population makes less than $20,000. We need to eliminate that fear of sickness or old age. A tax code is the codification of a country's values. But you can't kill the golden goose of prosperity.

- *Source: Emory's Goizueta Business School and McCombs School of Business at UT Austin*
- *URL:*
- *Time: February 2008*

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Do you feel that the might of America has changed?

You can bet against the dollar, but I would never bet against America. The system in the U.S. has allowed the country to unleash more for the world than any other country. Since 1776, the U.S. had a different system than the rest of the world and that system unleashed the human potential. We were not the smartest nor did we have the best resources. This is the same system we have in place today with people of similar intelligence. I have and would bet against the U.S. currency, stocks, etc. but the United States prevails over time. There are all kinds of rocky roads but we have rule of law, equality of opportunity, and a meritocracy. We have a market system and people apply energies and imagination to come up with things someone would want. Everyone in this room is working far below his/her potential.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

Overall, I'm an enormous bull on the United States. In 1790, we had a population of 3.9 million people vs. 290 million in China and 190 million in Europe. We've all had roughly the same conditions since then, yet 215 years later, we have 30% of the world's GDP. This is one of the great all-time success stories.

[CM: I believe that we are at or near the apex of a great civilization.]

I don't feel that way. You'll know who's right in 20 or 30 years.

What we do is no secret. The relative importance of America will diminish. The rest of the world is catching on and adopting our best practices. But our castle will grow. It's good for us if the rest of the world does well, and they're growing from a lower base. I don't think their success comes out of our hide.

[CM: In 50-100 years, if we're a poor third to some countries in Asia, I wouldn't be surprised. If I had to bet, the part of the world that will do best will be Asia.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

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What are the biggest challenges that this country faces?

The biggest problem is probably weapons of mass destruction. We have always had people who were ill-fitted to society and wished harm on others. In 1945 we unlocked the atom, and that changed everything. The human animal hasn't changed, you still have the same percentage that are maladjusted. The problem is knowledge, materials, and deliverability. What you could do with the wrong kind of infectious disease is incredible. You can transmit things much faster today. Governments, individuals and organizations can't control security. It's what I would spend all of my money on if I could fix it. Everyone here in this room won what I call the ovarian lottery. You were born at the right time and we were all very, very lucky. We are in the luckiest 1% of humanity.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

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What do you think about the U.S. trade deficit?

I talked to Barack back in August, and said: “I have good news and bad news. The good news is that the economy will be terrible, so you’ll definitely get elected. The bad news is that the economy will be even worse at inauguration.” He asked, “Do you think it’s too late to throw the election?” The trade situation is there and it causes problem and could exacerbate the situation. However, all issues go on the back burner until we solve the big problem. We create sovereign wealth funds, buying more goods and services than everyone else in the world. The decline in the oil price has helped the trade deficit but nothing will get better until everyone feels better. Every day, we buy $2 billion of goods and service more than we produce and export. We give the exporting nations USD. The trade deficit creates claims on the United States. Sometimes we’re a little hypocritical. For example, three years ago, the Chinese wanted to buy Unocal (a small oil company in California) and Congress wanted to condemn China for wanting to buy the oil company with the money we gave them (through U.S. imports). That’s a little disingenuous. The trade deficit creates a situation because we give people claim checks, then we get upset when they want to use them. The Japanese bought Rockefeller Center in the 80’s. Did we think they were going to move it? It’s not useful to fan those flames in a nuclear world, and that’s what’s wrong with “Buy America.” The trade deficit will come up big time when we get past the current problems.

- *Source: Q&A with 6 Business Schools*
- *URL:*
- *Time: Feb 2009*

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What level of taxation on capital gains is most conducive to the long-term economic

health of this society, and is that also the fair and just rate?

[CM: I think there's an easy answer to your capital gains issue, and one is what makes an economy work best in some abstract mathematical sense, and the other is the consideration that you allude to that gets into issues of fairness. Aristotle felt that systems worked better when they were generally perceived as fair, and civilization worked better if people saw the differences in rewards as being reasonably fair, anyway. I think that if you have a civilization where you work 90 hours a week driving a taxicab, with no money and no medical insurance and so forth, and somebody else does nothing but own Berkshire Hathaway shares and sit on the country club porch and peel off a few every year to pay the bills, that would be regarded as so unfair, that even if it had some theoretical economic efficiency that it would be counterproductive for our particular civilization to have that kind of a tax code. I'm all for having some taxation of capital gains. Once you reach that conclusion, you get into the question of what is the fair rate. I think the fair rate might be a little lower than it is now, but not much lower.

Sounds to me like he's a seller of Berkshire. (laughter) Patrick [the questioner, who Buffett knew previously--ed.] gave me a system of mental construct to attack questions like this. He said just imagine that you were going to be born 24 hours from now, and you had been granted this extraordinary power: You were given the right to determine the economic rules of the society that you were going to enter. Those rules were going to prevail for your lifetime, and your children's lifetime, and your grandchildren's lifetime. But as in most of these types of questions, there's one hooker: You don't know whether you're going to be born black or white, male or female, bright or retarded, infirm or able-bodied, in the United States or Afghanistan--in other words you're going to participate in 24 hours in what I call the ovarian lottery. (laughter) It's the most important event in which you'll ever participate. It's going to determine way more than what school you go to, how hard you work, all kinds of things. You're going to get one ball drawn out of a barrel that probably contains 5.7 billion balls now. And that's you. Now what kind of society are you going to construct with that in prospect?

Well I suspect you would focus on two issues that Patrick mentioned in his question. You would try to figure out a system that is going to produce an abundant amount of goods, and where that abundance is going to increase at a rapid rate during your lifetime and your children's and your grandchildren's. You'd want some system that turned out what people wanted and needed, and you'd want something that would turn them out in increasing quantities for as far as the eye could see. But you'd also want a system that, while it did that, treated the people that did not win the ovarian lottery in a way that you would want to be treated if you were in their position, because a lot of people don't win the lottery. I mean, Charlie--when we born the odds were over 30 to 1 against being born in the United States. Just winning that portion of the lottery is an enormous plus. We wouldn't be worth a damn in Afghanistan. We'd be giving talks and nobody would be listening. (laughter) It would be the worst of all worlds. So we won in that way--we won partially in the era in which we were born by being born male. When I was growing up, women could be teachers and secretaries and nurses and that was about it. 50% of the count of the country was excluded from a very large part of the occupations. We won it by being white. No tribute to us, it just happened that way. And we won it in another way by being wired in a certain way which we had nothing to do with, that happens to enable us to be good at valuing businesses. Is that the greatest talent in the world? No, it just happens to be something that pays off like crazy in this system. (laughter)

When you get through with that, you still want to have a system where the people that are born like Bill Gates or Andy Grove or something get to turn those talents to work in a way that really maximizes those talents. It would be a crime to have people like that or Tom Murphy working in some pedestrian occupation just because you have this great egalitarian instinct. The trick, it seems to me, is to have some balance that causes the people who have the talents that can produce goods that people want in a market society to turn them out in great quantity, and to keep wanting to do it all their lives, and at the same time, takes the people that lost the lottery, and makes sure that just because they got the wrong ticket, they don't live a life that's dramatically worse than people that were luckier.

When I get through that long speech, I probably come out with the idea that the capital gains tax as it is today is just about right. I've been around a lot of people with money and talent over time, they don't always go together but I've been around both classes (laughter) and I see very few of them that are turned off from using their talents by a 28% capital gains tax--it just doesn't happen. They do what they like to do. I've just never seen it happen. I see a lot of people that pay taxes that are higher than 28% that are contributing more to society by some judgment other than a pure market system. I just don't think it's inappropriate in a country like this to tax me at 28% for selling some of my Berkshire shares whereas somebody who makes even relatively modest amounts of money can get up to 39% while they're trying to figure out a cure for cancer. That's where I come out on that. (applause)

- *Source: BRK Annual Meeting 1997*
- *URL:*
- *Time: 1997*

back to the questions.

What's your opinion of oil? peak oil?

Oil is finite. It will eventually run out for practical purposes. America found oil early, and there isn't much left here. We will see a plug-in electric car. BYD is very smart. Doesn't know if change to alternatives will be evolutionary or revolutionary. But oil will be higher and solar/electric will be more abundant. (A side note: Buffett went from average oil out of the ground down the value chain and into a personal consumption calculation in his head in about ten seconds.)

- *Source: John Reuwer*
- *URL:*
- *Time: Nov 19 2009*

[Q - Oil will run out this century. Considering US policy is to do nothing until the last second, will we face World War III? Will oil companies go to zero?]

WB: Oil won't run out - it doesn't work that way. At some point the daily productive capacity will level off and then start declining gradually. There is the depletion aspect and the decline curves. We are producing 86 million barrels per day or so, more than ever produced. We are closer, by my calculations, to almost our productive capacity, than we have ever been. I think our surplus capacity is less, and quite a bit less, than in the past. Whatever that peak is, whether it's 5 years, 10 years, etc., the world will adjust, and we will think about it. Adjustments will cause demand to taper off. I don't know how much oil is there, but there are lots of barrels of oil in place. We never recover total potential. We may have better engineering recovery in the future. It is nothing like an on and off switch. You may still have enormous political considerations to get access to available oil since it is so important. There is nothing you can do over a short period of time to wean the world off oil.

CM: If we get another 200 years of growth dispersed over the world while the population goes up, all oil, coal and uranium will run out, so we will have to use the sun. I think there will be some pain in this process. I think it is stupid to use up the hydrocarbons of the world so quickly. It's stupid when there are so few, and limited, alternatives. What should we have done? We should have brought all the oil over from the Middle East in the 1930s and put it in our ground. Are we doing it now? No. Government policy is behind in rationality. If we are to have a prosperous civilization, we must use the sun.

WB: Charlie, what is your over/under for oil production in 25 years?

CM: Oil in 25 years? Down.

WB: If that is true, that is a big number. China is doing about 10 million cars this year, so down in 25 years is significant.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

[Q - You speak frequently about future prosperity. How about oil – when it runs out. Isn' t it like trying to satisfy a drug addict with Coca-Cola?]

WB: Titusville 1853 changed the world. There are 500k producing wells in the US. It contributed to the prosperity of the world. The world will not be dependent on that windfall for next 100 yrs. There will be other free lunches available, whether it be solar or other. Don't give up on humans' ability to innovate to face problems that seemed insoluble. We haven't really started. If you could a point in time to be born, I would pick today. CM will give you something more dire.

CM: 150 yrs ago they needed the oil to get ahead. We can get ahead without the oil if we have to, we are advanced civilization. We need gas, coal and oil for chemical feedstock, not warmth or motor vehicles. Freeman Dyson has pointed out that we could go off oil. It doesn't mean because we couldn't do it before that we can't do it in future. If it doesn't bother Freeman Dyson, it shouldn't bother you too much.

WB: He's always pulling that one on me too. [laughter]

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

The current tenuous economic situation and interest rates? Where are we going?

I don't think about the macro stuff. What you really want to in investments is figure out what is important and knowable. If it is unimportant and unknowable, you forget about it. What you talk about is important but, in my view, it is not knowable. Understanding Coca-Cola is knowable or Wrigley's or Eastman Kodak. You can understand those businesses that are knowable. Whether it turns out to be important depends where your valuation leads you and the firm's price and all that. But we have never not bought or bought a business because of any Macro feeling of any kind because it doesn't make any difference. Let's say in 1972 when we bought See's Candy, I think Nixon put on the price controls a little bit later, but so what! We would have missed a chance to buy something for $25 million that is producing $60 million pre-tax now. We don't want to pass up the chance to do something intelligent because of some prediction about something we are no good on anyway. So we don't read or listen to in relation to macro factors at all. The typical investment counselor organization goes out and they bring out their economist and they trot him out and he gives you this big macro picture. And they start working from there on down. In our view that is nonsense.

If Alan Greenspan was on the one side of me and Robert Rubin on the other side and they both were whispering in my ear exactly what they were going to do the next twelve months, it wouldn't make any difference to me what I would pay for Executive Jet or General Re or anything else I do.

- *Source: Lecture at the University of Florida Business School*
- *URL:*
- *Time: October 15th 1998*

[Q - your opinion on low interest rates?]

WB: Very difficult for many with such low rates. People talk about easy money, but it's not easy on the people who have money. If you invested at these rates when Columbus landed, and didn't pay taxes, you'd have doubled your money by now! It won't go on forever, but I'm very sympathetic with people living on a fixed income. Purchasing power is getting eaten away. This will end at some point. I would not want to be Chairman of the Fed. It won't work forever to run big budget deficits and have easy monetary policy. When we run into trouble the blame doesn't go to the Fed, it goes to Congress.

CM: In some sense, the reality of our situation is depressing, stocks are up because running fixed income returns are so lousy. But if it does last, we won't like it – just like Japanese. We will be mired in stagnation. This is a very easy message. [laughter]

WB: The pressure of extremely low rates can't be underestimated. Afraid of everything else, pressure to put other prices back up will be enormous as fear gets resolved. You shouldn't underestimate the degree to which the last year of stock prices is result of agony of very low interest rates. We have seen a lot of that, and we'll see what happens when rates go up.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
- *URL:*
- *Time: 2010*

back to the questions.

What was the impact of September 11th?

It made everyone realize that human haven't progressed in how they behave, but have progressed in terms of their ability to hurt someone they hate. 9/11 brought that home. It used to be that if you hated someone, you could only throw a rock at them.

There are millions of people who hate us, but most can't do anything about it. But a few can, and there's incredibly more ability for a deranged person to do harm to us today.

Before 9/11, we weren't being paid for insuring the risk of terrorist attacks. Since then, the insurance industry has recognized that it has exposures that it had to exclude or charge for.

For new policies, we've sold quite a bit of terrorism polities, but almost all exclude NCB -- nuclear (and fires afterward), chemical and biological. The World Trade Center attack was about as extreme as you can get without NCB.

As an industry, we can pay claims of tens of billions of dollars, but not hundreds of billions.

We write a few policies that cover NCB because we can take a loss of a few billion.

Most people don't realize that the World Trade Center attack was, by a huge margin, the largest workman's comp loss in history. Had the attack been on, say, Yankee Stadium, there would have been few workman's comp claims, but people were at work in the World Trade Centers. Imagine if someone developed a deadly biological agent and released it into the ventilation systems of a number of large buildings simultaneously. It would make the workman's comp claims for the World Trade Center look like nothing.

[CM: "To the extent that 9/11 causes us to be less weak, foolish and sloppy, it's a plus. We regret what happened, of course, but it's good that people become more realistic. For example, we should have tightened our immigration policies years ago." [I didn't interpret this as opposition to immigration in general -- simply that it should be monitored more carefully so that people like the 9/11 attackers couldn't enter the country and operate freely.]]

The key to both investing and insurance underwriting is to be realistic and disciplined. 9/11 drove home these lessons.

- *Source: BRK Annual Meeting 2002*
- *URL:*
- *Time: 2002*

back to the questions.

Could you use your clout to advocate for tort reform?

I'm sympathetic to what you're saying, but our clout is nothing compared to that of trial lawyers. It's appalling the friction costs to our society of tort insurance. People pay off rather than go through the nuisance of a suit. The people that pursue that activity pursue it not because it's right, but profitable.

But when I look at what's happened in Corporate America, I don't think they should get off scot-free. I just wish the people who engaged in the wrong-doing would pay, not the D&O insurance.

[CM: If you say the tort system includes Workman's Comp, which I would, I'd agree [that the system has serious problems]. In California, Costco has 1/3 of its employees but pays 2/3 of its total Workman's Comp [bill]. It's institutionalized fraud -- chiropractors, etc. all working together. It'll cost jobs. I had a friend who moved his plant from Texas, where his Workman's Comp was 30% [of wages] to Utah, where it was 2%. In California, it's gotten so bad that I think there will be reform, even though the legislature is controlled by Democrats.

Most of the time they [the plaintiffs' lawyers] are suing someone who has done something terrible. A lot of defendants who are screaming about plaintiffs bar have done some terrible things. The present system is crazy, but I don't know how to fix it.]

Would you make people who did wrong things pay a portion themselves?

[CM: I think it would be a great improvement if there were no D&O insurance . The counter-argument is that no-one with any money would serve on a board. But I think net net you'd be better off.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

back to the questions.

Views on growing income inequality?

The American consumer overall is better off, but not dramatically better than 10 years ago. You're right that there's been increasing inequality. We don't make decisions on what business we buy based on some sweeping projections about what American consumers will do. We're very certain that Americans will do better over time. Average income per capita rose 7x in the 20th century. A simple phone call across the country used to cost a great deal relative to income. People will be better off decade after decade. We're not big on being futurologists.

Our consumer businesses -- candy, furniture, etc. -- are very very soft. They were down in Q1. I think we've been in a recession -- although not huge or violent one -- for two years. When government talks about GDP growing 2%, keep in mind that the population grows 1%. It's GDP per capita that counts. And GDP counts people who make you take off your shoes before you get on a plane. It counts good and services that we wish we didn't want. When you get into a war, if you drop planes into the ocean, it [building replacement planes] is part of GDP. Desirable GDP, my guess, has gone no place in the past three years. The quality of GDP isn't talked about very much.

[CM: Figures you gave on inequality obscure an important fact: if the same family were always on the bottom, then you'd have big resentments. But if DuPonts go down and Pampered Chef up, [that's good]. That much churn makes people think the system is fairer. Buffett: We don't like churn now, but we liked it more 30-40 years ago. [Laughter.]]

[BRK2004 - I don’t see how corporate profits will move up as percentage of GDP.]

- *Source: BRK Annual Meeting 2003 Tilson Notes*
- *URL:*
- *Time: 2003*

Buffett: Corporate profits today are close to their highs, except for a few years after World War II. Incidentally, corporate taxes are nowhere near their highs, so there’s a disconnect there.

It is certainly true that in the last 5 to 10 years, the disparity in income has widened significantly and the tax breaks for the wealthy have been extraordinary. I’ve said in the past that most of the members of the Forbes 400, myself included, pay a lower percentage of their income in taxes than their receptionist. This wasn’t true decades ago and it’s wrong in a rich society.

In 2004, my tax rate was the lowest of the 15 people in my office – and I’m not taking advantage of any tax shelters – and it’s even lower in 2005. That’s crazy. I don’t think the American people understand that, and if they did, they wouldn’t be very happy about it.

Munger: GDP per capita figures have been very good. I wouldn’t get too wild about the median income. There are huge fluctuations up and down. What’s really important is that the pie keeps growing.

That being said, I don’t disagree that Warren’s right about too many tax cuts for the wealthy, but I don’t think it’s as important.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Thoughts about the odds of a nuclear attack?

You are quite correct that people tend to underestimate low probability events when they haven’t happened recently, and overestimate them when they have.

On the nuclear question, you can do the math easily – the question is whether your assumptions are right. If there's a 10% chance each year [of an attack], then there's only a 0.5% chance it doesn't happen sometime in the next 50 years. But if the odds are only 1% each year, then there's a 60% chance you get through the next 50 years.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

Buffett: I couldn't agree more that the ultimate problem of mankind is a state- sponsored use of a nuclear weapon. It will happen someday.

Thousands of years ago, if you wished evil upon your neighbor, you threw a rock, but since 1945, the potential for inflicting enormous harm on a large number of people has increased geometrically.

To those who believe the idea that if we solve poverty it will take care of the problem, I'd remind you that the only country to use nuclear weapons on another is us.

What holds the danger in check is a lack of knowledge, materials and deliverability. But knowledge is getting more widespread, and materials are too.

I don't know how money attacks this, but I think this should be a top priority, at least for my foundation.

There are six billion people and a few percent are really crazy and they would like to do great harm to a lot of people. And only one has to succeed. I don't know how many we've stopped. It could be state-sponsored or by a terrorist.

As for how our company and stock would do, Berkshire is better positioned than anyone else, but that won't make much difference.

Munger: I think chances that we won't have any nuclear attacks over the next 50-60 years is probably zero. But I don't think there's anything we can do about it.

Buffett: You can elect leaders who are very aware of the problem and devote efforts to mitigate it. The genie's out of the bottle, but you'd like to have leaders who focus on this. Both candidates in the 2004 Presidential race agreed that it was the biggest problem we faced.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

[Q - How can further nuclear proliferation be prevented?]

WB: The great problem of mankind is that the genie is out of the bottle on nuclear weapons. More and more people will know how to do damage. Psychotics will wish ill will. Materials and deliverability is the choke point. People generally associate this risk with terrorists and rogue states. But I regard it as a big threat to the future of mankind. We haven't made much progress and we should be doing everything to reduce access to materials. We have a proposal to reduce the rationale to have big weapons. The world has 6.5 billion people, and it is very likely that twice the number of people wish ill than when the world had 3 billion. We used to just pick up a stone and throw it at our neighbor, so massive damage was limited. Since 1945, everything in the world has changed except how men think. There's been exponential growth, and we haven't gotten rid of the nuts. We live in a dangerous world, and it's getting more dangerous as we go along. In the Cuban Missile Crisis, the odds were probably 50/50. We were lucky. It won't go away. You would hope we have an administration which will try to figure out how to minimize the risk. It should be paramount to eliminate deaths on a large scale.

CM: Well, you can talk about death on a large scale. The population of Mexico probably had a population decline of 95% as result of European pathogens. It won't wipe out the species. I hope that cheers you up.

WB: The cockroaches will survive.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

back to the questions.

Opinion on immigration?

[CM: I'm very pleased when the smartest people come [to the U.S.] and almost never pleased when the very bottom of the mental barrel comes in.]

Over the past 200 years, we started with four million people and we now have over 30% of the GDP of the world. We've been characterized by lots of immigration. Whether that's responsible for our success, I don't know, but I suspect so. I don't think we've been hurt by immigration.

I think Charlie would like to be the admitting officer. It would work pretty well, but it's not very practical.

- *Source: BRK Annual Meeting 2004 Tilson Notes*
- *URL:*
- *Time: 2004*

Buffett: I think illegal immigration is a problem and should be addressed quickly. I don't think 11 million people should be shipped home. I also think more liberal rules going forward should be enforced.

I don't think it would have a dramatic effect on the economy if the people here illegally became legal. [I missed this, but I think he said something like costs at businesses that employ illegal immigrants would go up and would be passed along, but the impact would be minor.]

Who's to say if Charlie and I were born elsewhere that we wouldn't try to get in, so I'm sympathetic [to the illegal immigrants].

Munger: If you don't like the results, get used to it. We have never had the will to enforce the immigration laws. What you see is what you'll continue to get.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

back to the questions.

Opinion on social security?

I don’t want to do anything to hurt the bottom 10-20% of the population. I’ve seen people who fear for the last years of their lives [that they won’t have enough money].

We’re worrying about a problem in 25 years, that’s a fraction of our current $500 billion trade deficit. We’re spending 4.5% of our GDP on Social Security now; if we have to increase it to 6% in 50 years, this is not a worry.

There are some things we should do, however: means test it, lift the $90,000 cut-off [there are no Social Security taxes above this amount each year] or eliminate it, and increase the retirement age. 2005 is a lot different from 1935 [in terms on longevity].

[CM: That’s the perspective of the Democrat up here, so you might be surprised to hear from the Republican that I think the Republicans are out of their cotton-pickin’ minds to be taking on this issue at this time. The thought that more of our GDP will be going to the elderly over time is not anathema to me.

Social Security is very successful. Apart from disability – a small part – there’s almost no fraud; it’s hard to fake being dead. (Laughter) It rewards work, it’s low cost. It’s one of the most successful government programs ever.

For the current administration, which needs to face down North Korea and Iran, deal with Iraq, etc., to waste political capital on this twaddle.]

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

Buffett: Every society has to decide how to allocate wealth. Starting in 1935, we formally took the idea that the government should provide for the elderly. The government has always been there for young, via schools. Perhaps the idea that 65 isn’t the right age for retirement anymore is correct and more change is needed.

This country has output of nearly $40,000 of GDP per capita. Some people like Charlie and me are wired to earn a lot in our society, but many people aren't [and they need to be taken care of in their retirement]. Our country can easily handle the Social Security issue. It astounds me that a government running a $300-400 billion deficit now is worried about a $100 billion deficit decades from now. We produce more every year as we go along. There's always a debate over how to split the pie, but it's a huge and growing pie so we can take care of older people.

Munger: Of course if we don't change anything, Social Security will run low on funds. But if we grow, then it's child's play to [deal with this problem]. And it's crazy to think we'd freeze the amount we'd pay to the elderly. Social Security is a low-overhead, efficient program. I wish my own party would wise up on this issue.

Buffett: This is what happens when you ask a couple of old guys about how much to give to the elderly. [Laughter]

Politicians are very happy to talk about the Social Security surplus and trumpet that, but when there's a deficit decades out, they panic. There's a lot of hypocrisy.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

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Opinion on public education?

A good public school system is a lot like virginity: easy to preserve, but not to restore. To succeed, well-to-do people need to be involved. I admire the fact that people like John Walton, Bill Gates and Ted Forstmann have gotten involved with this issue.

Next to the nuclear/chemical/biological weapon problem, the #1 problem we face is making sure our educational system is providing a good education to all children – and it's not. Dealing with the problem is complicated, as there are thousands of school districts and many unions as well.

A big problem is that in many places, the rich have opted out. I imagine that if I used the local golf courses, I'd care a lot about how they were managed and maintained – it's the same with schools. There's a two-tiered system right now.

I'm a big believer in public schools.

[CM: I met a guy whose wife teaches 8th grade in the local schools. He told me that, due to requirements of No Child Left Behind, for the numerous students who can't read, she records the books herself so that these students can listen to the books and follow along in class. This is [the best of] No Child Left Behind in a sense, but it's also a failure. It's very hard for a civilization to fix failure when 8th graders can't read.

It's a very serious failure that we've allowed this to happen.]

Bill Ruane [of Ruane, Cunniff, managers of the Sequoia Fund] has an extraordinary program that teaches kids to read. It's been going on for 10 years and the kids are enthusiastic.

A major reason for the success of the United States is the equality of opportunities compared to the rest of the world. It's a bad situation when some kids have great families, caring teachers, good schools, etc., but less advantaged kids have teachers that just push their students through the system, in schools where other students are doing bad things...

This [failure of the educational system] shouldn't be allowed in a country with almost $40,000 of GDP per capita.

- *Source: BRK Annual Meeting 2005 Tilson Notes*
- *URL:*
- *Time: 2005*

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Views on the U.S. Current Account Deficit?

We have earned more on American assets owned by people outside this country than the reverse. The net balance flipped in the most recent quarter and I expect this to continue. One reason is that the foreigners owning our Treasury bonds were getting only a little over 1% not long ago, so this was leading to a favorable balance. Now, that's turning as our interest rates are up. And, over time, it's going against us.

Now if you consider the magnitude and consequences of our $3 trillion net debtor position, that depends on what the dollar does. Over the past few weeks, the dollar has weakened, which reduces our debt, but could lead to inflation. Overall, [these trends] will not be favorable.

Munger: This is not a field to which I've devoted the same attention as Warren, but I do share his general pessimism that there will be a price to pay for the course we're on. I've always thought we could get away with more ruinous behavior than Warren has. We started from such a strong position. It's not as if the alternatives are all so great. I can understand why people would rather invest in the U.S.

Buffett: Yeah, if you landed from Mars, you'd still rather land in the U.S. than anywhere else.

Munger: Do you want to be in Europe, where 12-13% of people are unemployed and most 28-year-olds are living at home and being paid by state to do it? Or be in Brazil or Venezuela with the political instability that you fear? It's not totally irrational that people still like the U.S., despite its faults. Whatever misbehavior there is could go on quite a long time without a price being paid.

Buffett: I agree. This is the country that could sustain fiscally irresponsible policies for a long time. We still think this is the best place to be. But I also think there's a chance for something to suddenly go wrong.

- *Source: BRK Annual Meeting 2006 Tilson Notes*
- *URL:*
- *Time: 2006*

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What do you think the likelihood is of a major credit contraction?

It occurred during the junk bond crisis in 2002 and for equities in 1974. I don't think you'll necessarily see a contraction of credit or the Fed stepping on the brakes. I think you might see an exogenous event, a shock to the system, that causes a huge widening of credit spreads and a cheapening of equities. This would be good for Berkshire because we have money to take advantage of this.

In the past, when credit contracted, there was no money around. We tried to buy a bank in Chicago 30 or 40 years ago and couldn't borrow at all. The only people willing to lend to us were in Kuwait, and would only lend in dinars. That was real credit contraction. The reason the Fed was established was in response to this. We really needed a system where that would not happen. I think the Fed will not by design produce any credit contraction.

Munger: The last time we had a credit contraction [in the junk bond crisis in late 2002], we made a quick $3-4 billion. The whole investing world is getting more and more competitive. If we had a big credit contraction, it would really gum up the world. If we had this, especially after a period of excess like we've had, we'd get legislation that most of us wouldn't like.

Buffett: Jon Alter, in his book about the Great Depression [The Defining Moment: FDR's Hundred Days and the Triumph of Hope], describes how this country was close to the brink and FDR got any law passed he wanted, as soon as he could write them. It was a good thing in this case – banks were closing and people were dealing in scrip.

In 1998, Long Term Capital Management blew up and you had a seize-up of the credit markets that was not orchestrated by the Fed. People panicked about even the safest instruments. This happened not 100 years ago but less than 10 years ago. There were plenty of smart people with a lot of money, but people panicked in part because they saw others panicking.

History doesn't repeat itself, but it rhymes. We'll have something that rhymes.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

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The state of Florida getting into the insurance business?

It's easy to understand both sides. The average homeowner will not read line by line of an insurance policy and the agent often won't explain it. So when something goes wrong, the homeowner wants to be paid. It's worse when tens of thousands of homeowners are affected at the same time. It's natural for government to step in and expand what an insurance company thought they were covering, which leads insurance companies to pull out.

I can understand the insurance company not wanting to write policies if the words won't be adhered to, and I can understand the upset homeowner. If I were writing policies, I'd put exclusions in big type, but even so, I'd expect courts and legislatures to extend or even abrogate the terms of the contracts, figuring a guy like me or insurance companies can better afford it vs. the people affected.

When you have people around the country subsidize people who suffer from hurricanes in Florida, that gets very tough. It might become so expensive that they want to socialize it, but the guy in Nebraska says "Why should I subsidize you living in a hurricane path?"

It will really become an issue if you have a $100 or $150 billion loss in Florida. This would lead to a huge increase in taxation in Florida, so the state might call on Washington [the federal government] to pay for it. How much should people who are not exposed to risk send to people who choose to have this risk? I think you'll see a big struggle over this in the next 10 years.

I can't tell you with precision what the Florida legislation says, but the state of Florida has gotten more into the business of insuring citizens than it was before.

[Buffett asked Joe Brandon, CEO of Gen Re, to take the microphone and answer the question.]

Brandon: Back in mid-January, the Florida legislature met in a special session and passed legislation that is moving a lot of risk in personal lines. It is having a depressing effect on the insurance industry. There is no free lunch. The state and citizens of Florida are taking a lot of risk. It will work out well if the wind doesn't blow, but odds are that it will. [According to this summary of the legislation, the state has taken on a $12 billion increase in exposure from $16 billion to $28 billion, with the possibility of an additional $4 billion more.]

Buffett: The real problem will be with a $100 billion insured loss. The state might have to issue $60 billion in bonds and might go to the federal government and say, “It’s not our fault and the entire country should pay.” $100 billion isn’t likely – Hurricane Andrew, inflation adjusted, was $30 billion – but if that storm had come through 20 miles north, it could have been. If this happens, we’ll find out if the whole country has, in effect, been insuring Florida. If the federal government throws it back to Florida, they’d have to issue a lot of bonds and raise taxes.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
- *URL:*
- *Time: 2007*

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What's your opinion on global warming? climate change?

Buffett: I believe the odds are good that global warming is serious. There’s enough evidence that it would be foolish to say there’s a 99% chance it isn’t a problem. In this case, you have to build the ark before the rains come. If you have to make a mistake, err on the side of the planet. Build a margin of safety to take care of the only planet we have.

Gen Re writes way less business subject to the effects of global warming than does National Indemnity, which writes super-cat policies. We think much more about whether global warming will produce atmospheric changes that will change the frequency and intensity of major storms. We think the exposure goes up every year, even though we don’t know exactly what goes on in the atmosphere.

The relationship is explosive – global warming could increase expected losses by two, three, four or five times. It’s not something that keeps me up in terms of the financial prospects of Berkshire, but [it’s worth thinking about].

Munger: Carbon dioxide is what plants eat. Generally speaking, it would be more comfortable if the world were a little warmer. It’s not as if a vast flood of people are moving to South Dakota from southern California. [Laughter] It’s not clear that it would be a disaster for all humans, but the dislocations would be hard.

Buffett: You don't think it would be a problem is the sea level were 15-20 feet higher?

Munger: With enough time, these things can be adjusted to. I don't think this is likely to be an utter calamity for mankind. You'd have to be a pot-smoking journalism student to think so.

Buffett: We do know that in 2004 and 2005, hurricanes hit with a frequency and intensity that would not be expected looking at the past century. We were spared a far worse scenario by a couple of category 5 hurricanes that didn't hit the coastline.

I don't think Katrina is the worst that we'll see. I don't know all of the factors that go into hurricanes – there could be 50 variables, but all I know is that it's likely to get worse. And it would be crazy to write insurance at prices from a few years ago, so it's a factor for us.

- *Source: BRK Annual Meeting 2007 Tilson Notes*
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- *Time: 2007*

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What's your opinion on politics, elections, and the political system?

Politics is difficult. Famous line from Bill Buckley about what would you do if elected? 'I would demand a recount.' The truth is that you get lots of pandering in the policies that are proposed. The candidates are pretty smart about economics. The political process is something that doesn't lend itself to Douglas-Lincoln debates on the fine points. I think the current candidates will be better in office than on a soap box. We have a country that works well regardless of who is in office. You want to buy stock in a business that is so good because sooner or later an idiot will run it. I think we have three very good candidates. The motivations of people running are better than their proclamations. You may win a badge for courage, but you won't win the presidency in Iowa if you're against ethanol.

CM: When Enron shocked the nation, our politicians passed Sarbanes-Oxley. We are currently shooting at an elephant with a peashooter. I confidently predict we will have changes in regulation, and they won't work for everybody. Human nature always has incentives to rationalize and misbehave. For this reason, we will have turmoil for as far ahead as you can see. [There will always be something.]

WB: I would gladly pay to have this job. Let's assume I was campaigning for this job, and if so, my answers might be different. It is a corrupting process, naturally. There is a boom in oil and also in soybeans. Because of increases in food prices, would anyone expect to propose an excess profits tax on farmers? But what about an excess profits tax on Exxon? Situational ethics and policymaking depend a lot on voters. I'm not sure I'd be able to do better, but if I wanted to be President, I'm not sure my behavior wouldn't be bad too. Any one of the three candidates will do well in the White House. I think they will do what is best for the country.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
- *URL:*
- *Time: 2008*

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Maybe there should be a Buffett/Munger Presidential ticket. Please name three difficult policy decisions and three perfect solutions to better the country.

WB: Charlie will serve the first term, so he'll answer first.

CM: That takes us so far afield. Three perfect solutions to the problems of mankind, we are not up to it.

WB: I would do something about the tax system. The super rich should pay more. The middle class should pay a little less.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
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Can volunteering help the economy? If so, then why aren't people doing it? I stick to my

motto if you see something that needs doing, do it.

Volunteering can definitely help the economy. Value is created in many ways and public service is definitely an important one. It is an investment in our society and country. Your attitude will bring positive dividends to not only yourself, but to others around you.

- *Source: Secret Millionaires Club*
- *URL: http://www.smckids.com/ask-warren/all-questions/*
- *Time: 2010*

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Should the U.S., and U.S. companies such as Coca-Cola, withdraw sponsorship of the Beijing Olympics because of humanitarian values?

WB: I think the Olympics should be allowed to continue forever with everyone participating. It is hard to grade a couple hundred countries. It is a terrible mistake to try to start grading. The more that participate, the better. I would not start getting punitive. I think it's a terrible mistake to ban countries from the Olympics. The United States only started allowing women to vote in the 1920s, and I consider that a huge violation of human rights, but we wouldn't want to be banned from the Olympics for the years prior. I think that over time, China is contributing and getting better.

CM: Warren understates my position. Many are distressed by imperfections in China, so I ask - has China gotten more or less imperfect as the decades have gone by? It is moving in the right direction. That is a good thing, and it is not good to pick the worst thing about a person you don't like and obsess about it.

WB: You will do better with people you are working with if you nudge them a bit.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
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Why is it that Americans do not save, and what can we do?

WB: The savings rate has fallen. It may be negative. But the value of the country in real terms increases decade to decade. It's worth more now than 20 years ago—something good has happened. The propensity to save seems innate in some places. If you own Berkshire, you are saving because we retain earnings and therefore you are net saving—and I have been doing it in Berkshire for 43 years. I don't know that the savings rate—based on calculations on consumption and imports—is accurate. We are importing $700 billion more of services than we are exporting [per year]. We are exporting claims against America. But we are so rich, it may not be really apparent. Average standards are likely to improve, but it may be disproportionate. In net real terms, the value on a per capita basis will very likely increase decade to decade. But it is nothing compared to China or Korea where the savings rate is very high. We may not save very much because we don't need to. We are a very rich country, and we may not need to save as much as other countries trying to reach their potential.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
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What is the future of mass transit?

WB: Passenger traffic? [Yes.] The American public generally doesn't like mass transit. Americans have a love affair with their car, which translates into an aversion to mass transit. One person to a car seems to be a popular method for moving around. We are unlikely to see expansion in mass transit. The American public is genetically averse to mass transit. It seems to be human nature that people want to drive even if they have to pay $4 a gallon on gas and double on parking. I wouldn't be optimistic about something that has a long trend in human nature to reverse all of the sudden.

CM: You have a more optimistic view of it than I have.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
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Is there a chance the CDS [Credit Default Swap] market may eclipse subprime?

WB: The CDS notional value is about $60 trillion. There is lots of double counting, etc, but no doubt it is a lot of money. They are swaps, or insurance against companies going bankrupt. We have written two types of derivatives, and we have insured a swap that pays to someone else in the event of a default on high yield indices. I think we will make significant money. I think there is no question that the corporate default rate will rise. That has been included in the price in writing this insurance. Will the CDS market lead to chaos? Probably not, but if Bear [Stearns] had failed, you would have had chaotic conditions. A CDS is a payment by one party to another. When someone loses money on a loan, they've lost real money, but there is not a swap of dollars immediately when the loan goes bad. In a CDS, there is an exchange of cash. Whether the counterparties fail [on a massive scale]—I don't think it will happen. We've had enormous collateral payments from one firm to another in this recent crisis. Fairfax Financial made $1 billion in CDS's. This means another guy lost $1 billion. They have been the most volatile of instruments and it really hasn't created a problem in the system. If the Fed must step in, I don't think it will be due to CDS's. It may cause big losses, but it will be matched by big gains by others. There is a problem of an overnight disruption in the system [i.e. Bear, nuclear bomb]—where discontinuity and collateral posings are inadequate. At that time, large CDS exposure could exacerbate chaos to a considerable degree.

CM: Could we have a mess in CDS's? Yes, but the stupidity is not as bad as sweeping bums off skid row to give them houses. There is an issue of insuring against the outcome of losing money on a $100 million bond issue when you have $3 billion worth of contracts on that $100 million bond issue—there are incentives to manipulate the smaller loss to make a big collection on the larger position. It used to be illegal to buy life insurance on people you didn't know, with big payoffs in the event of their death. Why did we want enormous bets to be made in unregulated markets? We have a major nutcase bunch of regulators and proprietors in this field.

WB: Charlie 1 point, Invisible Hand 0 points.

- *Source: BRK Annual Meeting 2008 Boodell Notes*
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How do you envision a nationalized healthcare system, and how it would affect Berkshire's portfolio?

Munger: Something more like Europe, supplemented by a private system, like private schools [compete with public schools], will probably come to the U.S. in due course. I'm a Republican, but I'm not personally horrified by that. I wish they'd put it off for a year to solve other economic problems.

Buffett: Berkshire will adjust. It would pose no specific problems and specific opportunities.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

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Would the government's stimulus spending be better spent acquiring national infrastructure, as during the Great Depression, in order to put people to work?

Munger: Let me answer that one: Yes. [laughter]

Buffett: I certainly agree. A lot of wonderful things were done in the Great Depression. The 1930s should be the goal and model. Obviously, we want to use it intelligently. The intent is to get it into action quickly. Any time the federal government does something on a massive scale, there's going to be a lot of slop. We have a [political] system that doesn't detach the interest of individual legislators [leading to pork-barrel spending]. I am distressed when I look at what is attached to the bill. When the American public pulls back, government has to step in. There will be consequences [of the stimulus program].

Munger: One no brainer: Nationwide, we need a hugely improved electrical grid. That will help Berkshire subsidiaries, but we don't depend on it. The chance that it won't help us is zero.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
- *URL:*
- *Time: 2009*

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Will retail, manufacturing and service businesses still be below their 2007 levels three years from now, given how they have been affected by the recession?

Buffett: I don't know. If housing starts [remain] at 500,000, we'll get [housing market] equilibrium in two years or less. The government is now unhappy that people are saving. Retailing has been hit very hard. The higher end has been the hardest hit — it will last quite a bit longer. The experience of the last couple of years will not go away [be forgotten]. Retail real estate will be a tough area for quite a while. Shopping centers will be tough for years. Cap rates of 5% will look pretty silly. Service businesses are generally the better ones, because they require less capital and can be more specialized. I would not look for a quick rebound. South Florida will be a problem for a long, long time.

Munger: I have nothing to add.

[Comment: A "cap rate" is essentially the reciprocal of a price/earnings ratio, so a cap rate of 5% corresponds to a P/E of 20, which would be a rich valuation for the stock market.]

- *Source: BRK Annual Meeting 2009 Bruni Notes*
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What problems do you see in the world economy?

Buffett: There's always a lot of things wrong in the world; unfortunately, it's the only world we've got. We have a great system that works very well. Over time, people will live better and better. Our system unleashes human potential like no other—we haven't reached the end of that road by a long shot. We have these interruptions in the progress of society, but we have moved ahead pretty fast. We've wasted human potential in fits and starts. There will be bad years in capitalism, but in the 20th century there's been a seven-to-one improvement in the standard of living. There is enormous human potential, and the opportunities will win in the end. Every year we meet you can name a bunch of problems. Your children and grandchildren will live better than you do.

Munger: Interestingly, now as I get closer to death, I grow more cheerful economically. I especially like that we are about to harness the direct energy of the sun and [to get drinkable water from] seawater. It's probably a mistake to think only about your probable misfortunes. You should think about your blessings as well. The main technical problem of man is about to be fixed — energy.

[Q - A shareholder from Dayton, Ohio referred to Buffett's op-ed piece in The New York Times, wherein Buffett said he was moving toward a 100% investment in U.S. stocks, and asked him to comment on the relative severity of the current downturn.]

Buffett: Stocks got much cheaper in 1974, about four times earnings, than now, but interest rates were far higher, so maybe they were not really cheaper. It's not as dramatic as in 1974 in terms of buying opportunities—that was the best period I've seen. I bought some equities and bonds, too. I like when things get cheap, as long as the value's in the business. I'd much rather pay half of X than X.

Munger: It's nothing like 1973 – 74. I knew at the time that was my time [to invest], but I had no money—but that's part of the way it happens. 1974 was obvious. If I were you, I wouldn't try to wait for 1973 – 74 [conditions].

Buffett: What I paid yesterday doesn't matter. Picking bottoms is not our game— that's impossible. I spend 99% of my time thinking about Berkshire [not my separate money]. We had the chance to buy great corporate bonds. Our idea is not to tiptoe into anything.

Munger: Sometimes opportunities are under shell A when [you're] looking under shell B.

- *Source: BRK Annual Meeting 2009 Bruni Notes*
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Financial reform - what are the good ideas, and what are the bad ideas?

WB: The bill in Congress is 1550 pages. Charlie you take first 1500 pages… I'll take the last 50.

CM: My guess is most of the Senators have not read the bill and everyone is in doubt about what is going to happen. One thing is perfectly clear, our governmental system which regulates banks and investment banks, was too permissive. Every big bank was going to go blooey. A system so important with this risk should be changed. People are thinking about that. Banks hate losing investment flexibility. JP Morgan would hate to give up the biggest derivative book in the world. However, so much derivative exposure may not be good for the country.

If he were the benevolent despot of the country he would make Volcker look like a "sissy." He would reduce the activities of banks that are permitted. We need a new version of the Glass-Steagall Act that limits what commercial and investment banks are allowed to do. They need to be much safer businesses. Then Charlie gave an example of an S&L he was familiar with. As long as the repertoire was limited, the S&Ls were ok. But when people have unlimited credit like under the repo system, they are bound to go "plum crazy."

WB: What would you vote today?

CM: I don't think anybody knows what's going to happen. I don't know enough about it. If I was the benevolent despot of

America, I would make Paul Volcker look like a sissy. I would reduce the activities permitted if you used the government guarantee. If you are defacto using government money to make a business run, then you should not have a structure so complex that even the partners in the business don't understand the balance sheet. The complexity in the system is ridiculous and counterproductive. We need a new version of Glass-Steagall that drastically limits what both commercial and investment banks are allowed to do. When we owned a savings and loan, we had a restricted repertoire. We had government [deposits], and we were limited. If you give human beings too much freedom, especially in the repo system, they will go plumb crazy, and of course they did.

- *Source: BRK Annual Meeting 2010 Boodell Notes*
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The leading cause of death among young people is car crashes. BRK insures many of these crashes. New technology is helping give people feedback on their driving. How are GEICO and the Gates Foundation positioned to help save lives and improve this technology?

Buffett: The Gates Foundation has a large initiative on cigarette smoking, which is probably a lot more serious that car crashes. The Gates Foundation can't solve all the problems in the world. Deaths/mile have diminished over the years as cars have become safer (not due to cell phones and Blackberries of course, technologies that are leading to more deaths). Everyone has an interest in bringing down deaths and GEICO has a large safety program. Auto companies are working to make cars safer as well.

Munger: Nothing to add

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What is biggest challenge facing the US economy – what are implications of that for investing globally over next decade?

WB: Charlie? [laughter]

CM: Thank you for that easy problem. We haven't made our way in life with great global allocation systems. Berkshire's attitude is to concentrate on what we know, find things that seem sensible to us and let everything else fluctuate as they will. We do prefer to do more in responsible countries. More responsible countries make us more comfortable. We don't have global allocation system at Berkshire unless WB is hiding it from me.

WB: Not that one. [laughter]

WB: We aren't moving BNSF to China... A nuclear or biological event is pretty high probability over next 50 yrs. We have made remarkable progress in USA – it is a system that unleashes human potential. This crowd is not smarter than 200 yrs ago, and don't work harder, but boy do they live differently. System allows ordinary people to do extraordinary things over time. We don't know our own potential -- just like guys in 1790 hoping for better farm tools. We hope rest of world does well, it is not zero sum. If China and India do better, we don't necessarily do worse. I would be perfectly content to limit investments to US alone. But I'd rather have the whole world. Opportunities will be ample. I would not run from the United States.

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We need hope and jobs. Can you help?

WB: We will hire people when we have something for them to do. When BNSF carrying 173,000 loads per week (vs 150k before), we need more people. In our carpet business we are still down 6,000 from peak, but there is no reason to hire people if you have nothing for them to do. Get someone in textile mill who is 55 yrs old, they speak Portuguese – it is hard to retrain them. If you believe in creative destruction, you better have a social safety net. We have a pretty good one in this country, a lot better than 30 yrs ago. It isn't going to go away. Society owes some minimal living standard to people looking for work. But I don't think Berkshire Hathaway should be the social safety net.

CM: If Berkshire tried to hire make-work jobs to raise hope, the net effect over time would be to reduce hope.

WB: I believe the same, but rather Charlie say it.

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This was an opportunity, but in thick of the action, I was too scared. Given that we are not out of the woods yet in terms of the economy and the financial system, how would you assess the current buying opportunity for stocks?

Buffett: He has seen some times when undervaluation screamed at him and when overvaluation screamed at him. For the most part he believes that we have been somewhere in between. Right now we are somewhere in between and it is not the best time he has seen.

In terms of being scared during the depths of the market lows, if you can't handle the ups and downs and have the right temperament then you won't make much money in the investing business. People are focused on the pricing and quotes for stocks on a daily basis. But you wouldn't buy a farm and think about what it was worth on a day to day business. Ben Graham wrote about the importance of temperament years ago and everything he said still applies. Most people don't have the temperament to handle the ups and downs in the market. People who own a farm don't think that the market and the price is "telling" them something. What counts is buying a business at a great price and forgetting about it for a long time.

Munger: Said he developed more courage when he learned he could handle hardship. Maybe people should get their feet wet with more failure.

Buffett: How liquid is my farm? I'm not expecting prices to tell me what to do. There is a lot of interest in investing. What counts is buying a good business at a decent price and forgetting about it for a long, long time.

- *Source: BRK Annual Meeting 2010 Claremon Notes*
- *URL:*
- *Time: 2010*

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Is there a way to create synergies between BRK companies to promote solar solutions?

CM: Solar solutions are coming because they are so obviously needed. I never pass on an opportunity to not put them in, because they will get cheaper.

WB: That's long term thinking!

CM: I have to think of long term. And I am going to miss you terribly when you're gone. It reminds me of the old quote, Husband: "Will you still love me if I lost all my money?" Wife: "I will always love you but I will miss you terribly." What would modern civilization do if we had no alternative to fossil fuels? Cities are choking on themselves. More renewable energy is the answer. It is a stunningly stupid idea to grow corn with fossil water and fossil fuel. I am enormously optimistic about the new energy grid, and we will be way better for it. It is not all that important if solar power costs twice as much as we are used to – it is a blip in the economic future. Immediate business decisions, frequently the right answer is counterintuitive. Wait, they will get cheaper.

WB: I have nothing to add. [laughter]

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Rail business – does our country need high speed passenger rail? Private or public?

WB: By its nature, it is non-economic when competing with auto and air. We don't have point to point density to produce economic return. If it gets done, unless heavily subsidized, it won't meet test for private economics.

CM: I know little, but I am at least as dubious as you are. It would be competing with a system that works. The cost of a high speed rail in a densely populated place is enormous – a bottomless pit of cost and trouble in LA.

WB: If it is high speed, it can't stop very often. It can't spoke easily. They are considering a trolley system in Omaha – it will cost several hundred million dollars, and revenues are something like $400k, not including operating expenses. The math gets to be staggering. Money is from federal government so costs are shared, and it was done in Buffalo – and costs are huge – it would be cheaper for society as a whole to give everyone a cab ride. It is tough in a country of 3mil square miles. It is hard to make math work. If it becomes a huge project of government, then maybe it will work. But it won't happen with money that wants a return.

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What would be impact on portfolio of a Chilean size earthquake in LA or SFO?

WB: Fire following SFO quake was major cause of damage. In the industry they call it shake and bake – how much shake and how much bake? We think hard to get over $100bil. Big quakes in Pacific Northwest – possibility of high quake, new Madrid Missouri was well over 8 scale. I tend to think, when I think about quake exposure, I think $100bil. Northbridge caused more damage than San Francisco. Berkshire is totally prepared. I think in terms of $250bil worst case. And my guess is that Berkshire would still have positive earnings of some substantial amount in that case.

CM: A lot of fire in SFO in 1906 caused the damage, a lot of damage in an earthquake is uninsured. Earthquake insurance is not universal like fire insurance. Recent quakes didn't cause much fire. Fire or wind catch people worse than earthquakes. Chile I think 40% of cost was tsunami, and 60% quake.

WB: We have so much earning power outside insurance business. We have 3-4% of all earthquake insurance on $250bil, or $10bil dollars, and our pretax earnings are more than that. Everyone else gasping, and we'll be okay.

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How do you hope to tackle administrative costs when it comes to Aids treatment in Africa?

Bill and Melinda Gates can tackle these issues better then I can. I work on giving them more money so they can have more to work with. I am better suited to raising the capital, letting others do the work they are good at. We can do a lot more with private charities than the government can. We judge our success on how intelligently we attack a problem rather than on success or failure. Bill Gates regards every human life as valuable; we in the US need the help much less then other countries do.

- *Source: Student Visit 2007*
- *URL: http://buffettspeaks.blogspot.com/2007/01/permanent-value-teachings-of-warren.html*
- *Time: January 2007*

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Thanks and Credits

All material is from question and answer (Q&A) sessions with Warren Buffett. While I believe these notes accurately represent the views of Mr. Buffett, no recording devices were allowed, all notes were transcribed, often from memory, so please read critically.

Many thanks to Whitney Tilson for his kind permission to republish his excellent notes which make up the majority of the content.

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