Berkshire's Performance vs. the S&P 500

Year	Annual Percentage Change in Per-Share Market Value of Berkshire	Annual Percentage Change in S&P 500 with Dividends Included
1965	49.5	10.0
1966	(3.4)	(11.7)
1967	13.3	30.9
1968	77.8	11.0
1969	19.4	(8.4)
1970	(4.6)	3.9
1971	80.5	14.6
1972	8.1	18.9
1973	(2.5)	(14.8)
1974	(48.7)	(26.4)
1975	2.5	37.2
1976	129.3	23.6
1977	46.8	(7.4)
1978	14.5	6.4
1979	102.5	18.2
1980	32.8	32.3
1981	31.8	(5.0)
1982	38.4	21.4
1983	69.0	22.4
1984	(2.7)	6.1
1985	93.7	31.6
1986	14.2	18.6
1987	4.6	5.1
1988	59.3	16.6
1989	84.6	31.7
1990	(23.1)	(3.1)
1991	35.6	30.5
1992	29.8	7.6
1993	38.9	10.1
1994	25.0	1.3
1995	57.4	37.6
1996	6.2	23.0
1997	34.9	33.4
1998	52.2	28.6
1999	(19.9)	21.0
2000	26.6	(9.1)
2001	6.5	(11.9)
2002	(3.8)	(22.1)
2003	15.8	28.7
2004	4.3	10.9
2005	0.8	4.9
2006	24.1	15.8
2007	28.7	5.5
2008	(31.8)	(37.0)
2009	2.7	26.5
2010	21.4	15.1
2011	(4.7)	2.1
2012	16.8	16.0
2013	32.7	32.4
2014	27.0	13.7
2015	(12.5)	1.4
2016	23.4	12.0
2017	21.9	21.8
2018	2.8	(4.4)
2019	11.0	31.5
2020	2.4	18.4
2021	29.6	28.7
2022	4.0	(18.1)
Compounded Annual Gain – 1965-2022	19.8%	9.9%
Overall Gain – 1964-2022	3,787,464%	24,708%

Note: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31.

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Charlie Munger, my long-time partner, and I have the job of managing the savings of a great number of *individuals*. We are grateful for their enduring trust, a relationship that often spans much of their adult lifetime. It is those dedicated savers that are forefront in my mind as I write this letter.

A common belief is that people choose to save when young, expecting thereby to maintain their living standards after retirement. Any assets that remain at death, this theory says, will usually be left to their families or, possibly, to friends and philanthropy.

Our experience has differed. We believe Berkshire's individual holders largely to be of the once-a-saver, always-a-saver variety. Though these people live well, they eventually dispense most of their funds to philanthropic organizations. These, in turn, redistribute the funds by expenditures intended to improve the lives of a great many people who are unrelated to the original benefactor. Sometimes, the results have been spectacular.

The disposition of money unmasks humans. Charlie and I watch with pleasure the vast flow of Berkshire-generated funds to public needs and, alongside, the infrequency with which our shareholders opt for look-at-me assets and dynasty-building.

Who *wouldn't* enjoy working for shareholders like ours?

What We Do

Charlie and I allocate your savings at Berkshire between two related forms of ownership. First, we invest in businesses that we control, usually buying 100% of each. Berkshire directs capital allocation at these subsidiaries and selects the CEOs who make day-by-day operating decisions. When large enterprises are being managed, both trust and rules are essential. Berkshire emphasizes the former to an unusual – some would say extreme – degree. Disappointments are inevitable. We are understanding about *business* mistakes; our tolerance for personal misconduct is zero.

In our second category of ownership, we buy publicly-traded stocks through which we passively own *pieces* of businesses. Holding *these* investments, we have no say in management.

Our goal in both forms of ownership is to make meaningful investments in *businesses* with both long-lasting favorable economic characteristics and trustworthy managers. Please note particularly that we own publicly-traded stocks based on our expectations about their long-term *business* performance, not because we view them as vehicles for adroit purchases and sales. That point is crucial: Charlie and I are *not* stock-pickers; we are business-pickers.

Over the years, I have made many mistakes. Consequently, our extensive collection of businesses currently consists of a few enterprises that have truly extraordinary economics, many that enjoy very good economic characteristics, and a large group that are marginal. Along the way, other businesses in which I have invested have died, their products unwanted by the public. Capitalism has two sides: The system creates an ever-growing pile of losers while concurrently delivering a gusher of improved goods and services. Schumpeter called this phenomenon "creative destruction."

One advantage of our publicly-traded segment is that – episodically – it becomes easy to buy *pieces* of wonderful businesses at wonderful prices. It's crucial to understand that stocks often trade at truly foolish prices, both high and low. "Efficient" markets exist only in textbooks. In truth, marketable stocks and bonds are baffling, their behavior usually understandable only in retrospect.

Controlled businesses are a different breed. They sometimes command ridiculously *higher* prices than justified but are almost never available at bargain valuations. Unless under duress, the owner of a controlled business gives no thought to selling at a panic-type valuation.

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At this point, a report card from me is appropriate: In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so. In some cases, also, bad moves by me have been rescued by very large doses of luck. (Remember our escapes from near-disasters at USAir and Salomon? I certainly do.)

Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years – *and* a sometimes-forgotten advantage that favors long-term investors such as Berkshire. Let's take a peek behind the curtain.

The Secret Sauce

In August 1994 – yes, 1994 – Berkshire *completed* its seven-year purchase of the 400 million shares of Coca-Cola we now own. The total cost was $1.3 billion – then a very meaningful sum at Berkshire.

The cash dividend we received from Coke in 1994 was $75 million. By 2022, the dividend had increased to *$704* million. Growth occurred every year, just as certain as birthdays. All Charlie and I were required to do was cash Coke's quarterly dividend checks. We expect that those checks are highly likely to grow.

American Express is much the same story. Berkshire's purchases of Amex were essentially completed in 1995 and, coincidentally, also cost $1.3 billion. Annual dividends received from this investment have grown from $41 million to *$302* million. Those checks, too, seem highly likely to increase.

These dividend gains, though pleasing, are *far* from spectacular. But they bring with them important gains in stock prices. At yearend, our Coke investment was valued at $25 billion while Amex was recorded at $22 billion. Each holding now accounts for roughly 5% of Berkshire's net worth, akin to its weighting long ago.

Assume, for a moment, I had made a similarly-sized investment mistake in the 1990s, one that flat-lined and simply retained its $1.3 billion value in 2022. (An example would be a high-grade 30-year bond.) That disappointing investment would now represent an insignificant 0.3% of Berkshire's net worth and would be delivering to us an unchanged $80 million or so of annual income.

The lesson for investors: The weeds wither away in significance as the flowers bloom. Over time, it takes just a few winners to work wonders. And, yes, it helps to start early and live into your 90s as well.

The Past Year in Brief

Berkshire had a good year in 2022. The company's *operating earnings* – our term for income calculated using Generally Accepted Accounting Principles ("GAAP"), *exclusive* of capital gains or losses from equity holdings – set a record at $30.8 billion. Charlie and I focus on this operational figure and urge you to do so as well. The GAAP figure, *absent our adjustment*, fluctuates wildly and capriciously at every reporting date. Note its acrobatic behavior in 2022, which is in no way unusual:

	Earnings in $ billions	
2022 Quarter	"Operating Earnings"	GAAP Earnings We are Required to Report
1	7.0	5.5
2	9.3	(43.8)
3	7.8	(2.7)
4	6.7	18.2

The GAAP earnings are 100% misleading when viewed quarterly or even annually. Capital gains, to be sure, have been hugely important to Berkshire over past decades, and we expect them to be meaningfully positive in future decades. But their quarter-by-quarter gyrations, regularly and mindlessly headlined by media, totally misinform investors.

A second positive development for Berkshire last year was our purchase of Alleghany Corporation, a property-casualty insurer captained by Joe Brandon. I've worked with Joe in the past, and he understands both Berkshire and insurance. Alleghany delivers special value to us because Berkshire's unmatched financial strength allows its insurance subsidiaries to follow valuable and enduring investment strategies unavailable to virtually all competitors.

Aided by Alleghany, our insurance float increased during 2022 from $147 billion to $164 billion. With disciplined underwriting, these funds have a decent chance of being *cost-free* over time. Since purchasing our first property-casualty insurer in 1967, Berkshire's float has increased 8,000-fold through acquisitions, operations and innovations. Though *not* recognized in our financial statements, this float has been an extraordinary asset for Berkshire. New shareholders can get an understanding of its value by reading our annually updated explanation of float on page A-2.

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A *very* minor gain in per-share intrinsic value took place in 2022 through Berkshire share repurchases as well as similar moves at Apple and American Express, both significant investees of ours. At Berkshire, we directly increased your interest in our unique collection of businesses by repurchasing 1.2% of the company's outstanding shares. At Apple and Amex, repurchases increased Berkshire's ownership a bit without any cost to us.

The math isn't complicated: When the share count goes down, *your* interest in our many businesses goes *up*. Every small bit helps *if repurchases are made at value-accretive prices.* Just as surely, when a company overpays for repurchases, the continuing shareholders *lose*. At such times, gains flow only to the *selling* shareholders and to the friendly, but expensive, investment banker who recommended the foolish purchases.

Gains from value-accretive repurchases, it should be emphasized, benefit *all* owners – in *every* respect. Imagine, if you will, three fully-informed shareholders of a local auto dealership, one of whom manages the business. Imagine, further, that one of the passive owners wishes to sell his interest back to the company at a price attractive to the two continuing shareholders. When completed, has this transaction harmed anyone? Is the manager somehow favored over the continuing passive owners? Has the public been hurt?

When you are told that *all* repurchases are harmful to shareholders *or* to the country, *or* particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are *not* mutually exclusive).

Almost endless details of Berkshire's 2022 operations are laid out on pages K-33 – K-66. Charlie and I, along with many Berkshire shareholders, enjoy poring over the many facts and figures laid out in that section. These pages are *not*, however, required reading. There are many Berkshire centimillionaires and, yes, billionaires who have never studied our financial figures. They simply know that Charlie and I – along with our families and close friends – continue to have very significant investments in Berkshire, and they trust us to treat their money as we do our own.

And *that* is a promise we can make.

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Finally, an important warning: Even the *operating* earnings figure that we favor can easily be manipulated by managers who wish to do so. Such tampering is often thought of as sophisticated by CEOs, directors and their advisors. Reporters and analysts embrace its existence as well. Beating "expectations" is heralded as a managerial triumph.

That activity is disgusting. It requires no talent to manipulate numbers: Only a deep desire to deceive is required. "Bold imaginative accounting," as a CEO once described his deception to me, has become one of the shames of capitalism.

58 Years – and a Few Figures

In 1965, Berkshire was a one-trick pony, the owner of a venerable – but doomed – New England textile operation. With that business on a death march, Berkshire needed an immediate fresh start. Looking back, I was slow to recognize the severity of its problems.

And then came a stroke of good luck: National Indemnity became available in 1967, and we shifted our resources toward insurance and other non-textile operations.

Thus began our journey to 2023, a bumpy road involving a combination of *continuous* savings by our owners (that is, by their retaining earnings), the power of compounding, our avoidance of *major* mistakes and – most important of all – the American Tailwind. America would have done fine without Berkshire. The reverse is *not* true.

Berkshire now enjoys major ownership in an unmatched collection of huge and diversified businesses. Let's first look at the 5,000 or so publicly-held companies that trade daily on NASDAQ, the NYSE and related venues. Within this group is housed the members of the S&P 500 Index, an elite collection of large and well-known American companies.

In aggregate, the 500 earned $1.8 trillion in 2021. I don't yet have the final results for 2022. Using, therefore, the 2021 figures, only 128 of the 500 (including Berkshire itself) earned $3 billion or more. Indeed, 23 lost money.

At yearend 2022, Berkshire was the largest owner of *eight* of these giants: American Express, Bank of America, Chevron, Coca-Cola, HP Inc., Moody's, Occidental Petroleum and Paramount Global.

In addition to those eight investees, Berkshire owns 100% of BNSF and 92% of BH Energy, each with earnings that exceed the $3 billion mark noted above ($5.9 billion at BNSF and $4.3 billion at BHE). Were these companies publicly-owned, they would replace two present members of the 500. All told, our ten controlled and non-controlled behemoths leave Berkshire more broadly aligned with the country's economic future than is the case at any other U.S. company. (This calculation leaves aside "fiduciary" operations such as pension funds and investment companies.) In addition, Berkshire's insurance operation, though conducted through many individually-managed subsidiaries, has a value comparable to BNSF or BHE.

As for the future, Berkshire will always hold a boatload of cash and U.S. Treasury bills along with a wide array of businesses. We will also avoid behavior that could result in *any* uncomfortable cash needs at inconvenient times, including financial panics and unprecedented insurance losses. Our CEO will always be the Chief Risk Officer – a task it is irresponsible to delegate. Additionally, our future CEOs will have a significant part of their net worth in Berkshire shares, bought with their own money. *And* yes, our shareholders will continue to save and prosper by retaining earnings.

At Berkshire, there will be no finish line.

Some Surprising Facts About Federal Taxes

During the decade ending in 2021, the United States Treasury received about $32.3 trillion in taxes while it spent $43.9 trillion.

Though economists, politicians and many of the public have opinions about the consequences of that huge imbalance, Charlie and I plead ignorance and firmly believe that near-term economic and market forecasts are worse than useless. Our job is to manage Berkshire's operations and finances in a manner that will achieve an acceptable result over time and that will preserve the company's unmatched staying power when financial panics or severe worldwide recessions occur. Berkshire also offers some modest protection from runaway inflation, but this attribute is *far* from perfect. Huge and entrenched fiscal deficits have consequences.

The $32 trillion of revenue was garnered by the Treasury through individual income taxes (48%), social security and related receipts (34½%), corporate income tax payments (8½%) and a wide variety of lesser levies. Berkshire's contribution via the corporate income tax was $32 billion during the decade, almost exactly a tenth of 1% of *all* money that the Treasury collected.

And that means – brace yourself – had there been roughly 1,000 taxpayers in the U.S. matching Berkshire's payments, no other businesses nor any of the country's 131 million households would have needed to pay *any* taxes to the federal government. Not a dime.

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Millions, billions, trillions – we all know the words, but the sums involved are almost impossible to comprehend. Let's put physical dimensions to the numbers:

- If you convert $1 million into newly-printed $100 bills, you will have a stack that reaches your chest.
- Perform the same exercise with $1 *billion* – this is getting exciting! – and the stack reaches about ¾ of a mile into the sky.
- Finally, imagine piling up $32 billion, the total of Berkshire's 2012-21 federal income tax payments. Now the stack grows to more than 21 miles in height, about three times the level at which commercial airplanes usually cruise.

When it comes to federal taxes, individuals who own Berkshire can unequivocally state "I gave at the office."

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At Berkshire we hope *and expect* to pay much more in taxes during the next decade. We owe the country no less: America's dynamism has made a huge contribution to whatever success Berkshire has achieved – a contribution Berkshire will always need. We *count* on the American Tailwind and, though it has been becalmed from time to time, its propelling force has always returned.

I have been investing for 80 years – more than one-third of our country's lifetime. Despite our citizens' penchant – almost enthusiasm – for self-criticism and self-doubt, I have yet to see a time when it made sense to make a long-term bet against America. And I doubt very much that any reader of this letter will have a different experience in the future.

Nothing Beats Having a Great Partner

Charlie and I think pretty much alike. But what it takes me a page to explain, he sums up in a sentence. His version, moreover, is always more clearly reasoned and also more artfully – some might add bluntly – stated.

Here are a few of his thoughts, many lifted from a very recent podcast:

- The world is full of foolish gamblers, and they will not do as well as the patient investor.
- If you don't see the world the way it is, it's like judging something through a distorted lens.
- All I want to know is where I'm going to die, so I'll never go there. And a related thought: Early on, write your desired obituary – and then behave accordingly.
- If you don't care whether you are rational or not, you won't work on it. Then you will stay irrational and get lousy results.

- Patience can be learned. Having a long attention span and the ability to concentrate on one thing for a long time is a huge advantage.
- You can learn a lot from dead people. Read of the deceased you admire and detest.
- Don't bail away in a sinking boat if you can swim to one that is seaworthy.
- A great company keeps working after you are not; a mediocre company won't do that.
- Warren and I don't focus on the froth of the market. We seek out good long-term investments and stubbornly hold them for a long time.
- Ben Graham said, "Day to day, the stock market is a voting machine; in the long term it's a weighing machine." If you keep making something more valuable, then some wise person is going to notice it and start buying.
- There is no such thing as a 100% sure thing when investing. Thus, the use of leverage is dangerous. A string of wonderful numbers times zero will always equal zero. Don't count on getting rich twice.
- You don't, however, need to own a lot of things in order to get rich.
- You have to keep learning if you want to become a great investor. When the world changes, *you* must change.
- Warren and I hated railroad stocks for decades, but the world changed and finally the country had four huge railroads of vital importance to the American economy. We were slow to recognize the change, but better late than never.
- Finally, *I* will add two short sentences by Charlie that have been his decision-clinchers for decades: "Warren, think more about it. You're smart and I'm right."

And so it goes. I never have a phone call with Charlie without learning something. And, while he makes me think, he also makes me laugh.

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I will add to Charlie's list a rule of my own: Find a very smart high-grade partner – preferably slightly older than you – and then listen *very* carefully to what he says.

A Family Gathering in Omaha

Charlie and I are shameless. Last year, at our first shareholder get-together in three years, we greeted you with our usual commercial hustle.

From the opening bell, we went straight for your wallet. In short order, our See's kiosk sold you *eleven tons* of nourishing peanut brittle and chocolates. In our P.T. Barnum pitch, we promised you longevity. After all, what else but candy from See's could account for Charlie and me making it to 99 and 92?

I know you can't wait to hear the specifics of last year's hustle.

On Friday, the doors were open from noon until 5 p.m., and our candy counters rang up 2,690 individual sales. On Saturday, See's registered an additional 3,931 transactions between 7 a.m. and 4:30 p.m., despite the fact that 6½ of the 9½ operating hours occurred while our movie and the question-and-answer session were limiting commercial traffic.

Do the math: See's rang up about 10 sales per minute during its prime operating time (racking up $400,309 of volume during the two days), with all the goods purchased at a single location selling products that haven't been materially altered in 101 years. What worked for See's in the days of Henry Ford's model T works now.

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Charlie, I, and the entire Berkshire bunch look forward to seeing you in Omaha on May 5-6. We will have a good time and so will you.

February 25, 2023

Warren E. Buffett
Chairman of the Board