

# BERKSHIRE HATHAWAY ANNUAL MEETING 2015

50<sup>th</sup> ANNIVERSARY    MAY 2, 2015    OMAHA, NEBRASKA

NOTES WRITTEN AND COMPILED BY SUDEEP MENON - BOSTON, MA

---

*Note: Recording devices are not permitted during the Berkshire Annual Meeting. These notes were written very rapidly by hand and therefore should not be relied upon as a fully accurate transcript of the Q&A session.*

*Question #54 and its answer have been reproduced verbatim as transcribed by Mr. Whitney Tilson. Mr. Tilson asked that particular question during the session.*

**Q1: The first question [asked by Carol Loomis] came from a shareholder from TX. He asked if Berkshire was being ethical. Specifically referring to:**

1. Clayton Homes' alleged predatory lending practices reported by The Seattle Times. [<http://www.seattletimes.com/business/real-estate/the-mobile-home-trap-how-a-warren-buffett-empire-preys-on-the-poor/>]
2. The growing partnership with 3G Capital, referring to "brutal takeovers" and massive layoffs within companies post a 3G acquisition.

*[WB first took the Clayton Homes issue. He had come prepared with a few slides to present. After the lunch recess, he re-iterated that he hadn't seen the questions beforehand but that he knew that question would be asked, so he came prepared. He wasn't expecting it to be the first question, however!]*

**WB:** There were many errors in the Seattle Times article. In 2008, as mortgage originators packaged and securitized mortgages and associated risks,

mortgage holders were totally divorced from home-builders. We have no interest in selling a mortgage and having a default. Clayton keeps 100% of the mortgages. Many people do not qualify for mortgages due to low FICO scores. The question is: can you lend intelligently and [at the same time] people have a good chance of keeping the mortgage or house? 3% of Clayton's mortgages default; 97% don't. The customers need the financing. Customers are mostly people with low monthly incomes. We help them with our own money at risk to move them in to their homes. Cost of a manufactured home plus land on average is around \$95K.

The Seattle Times story alleged that Clayton was making a 20% profit. We asked for the affidavit and there was no statement in the affidavit. Gross profit is not net profit.

*[WB then went on to show a slide that detailed Macy's and Target's gross profits and their net figures. For Clayton, the figures shown were as follows:*

*Gross Margin: 20%*

*Pre-Tax Margin: 3%*

*Net Margin: 2%]*

At every Clayton retail store, there are lender boards with terms and rates from available lenders. I make no apologies whatsoever about Clayton's lending practices. I get a lot of calls and not one call over the last three years was regarding Clayton's lending practices. Moreover, we are regulated. When we can, we try to get people FHA loans but most don't qualify due to low FICO scores. Clayton has behaved extraordinarily well.

**CM:** Manufactured housing has a 50% share [of the total housing market]. I am not sure why manufactured housing does not have a bigger share of the housing market. Clayton operates in a very productive part of the economy but we can't make lending 100% accessible to everybody.

**WB:** We don't do 30-year mortgages anymore. We are proud of Clayton - we put 30K people in their homes.

*[On to 3G Capital]*

**WB:** We have never said that there should be more people running the business than needed. After they reduced headcount, they have done extremely well. *[mentioned Burger King/Tim Horton's]*. I hope Berkshire companies aren't run with more people than they need.

**CM:** It is important to get right-sized. This is eventually what happened in Russia. Before, [the culture was] "they pretend to pay and we pretend to work."

**WB:** There were more than 1.6 million people working in the railroads post WWII. Now there are less than 200K people working in the industry. But trains now carry more freight, over longer distances and with very high safety records. Efficiency is required over time within capitalism.

*[The next one was the first of many Auto Dealership related questions asked during the day]*

**Q2: Would Van Tuyl need to adapt to new modes of selling e.g. one price, no negotiations, like at CarMax?**

**WB:** I don't know the answer. People say they don't like negotiations but then they do it. Van Tuyl will adapt to whatever the customer wants. I wouldn't be surprised if in 5-10 years the [buying] system will still be the same. [The dealership] will be very profitable [in relation] to the capital we invest in it.

**CM:** It's been amazingly resistant to change in my lifetime.

**WB:** Same with real estate, jewelry and all other big ticket items.

**Q3: What five characteristics do you use to predict earnings of companies 5-10 years from now?**

**WB:** Charlie, what are your five?

**CM:** There is no one-size-fits-all system. We keep learning as well. We can't give you a formula that will help you.

**WB:** There are a lot of things that we look at. We are looking for things where we have some reasonable idea of what [the business] would look like in 5-10 years. Not the same items at all. Can't give you five characteristics. We don't have it. If we do, Charlie has kept it from me. *[Laughter]*

We evaluate if we want to be in partnership with this person [management] and count on them to behave well into the future. That stops a fair number of deals.

**Q4: Question for Charlie. Did you try to talk Warren out of IBM?**

**CM:** I did not. I think IBM is a very interesting corporation, very adaptable. They dominated the punch card business but it has been a mixed bag with the PC business. I think IBM is a very creditable company, an enormous enterprise, and an admirable enterprise. They were undergoing a temporary reversal and we bought at a very reasonable price.

**WB:** It was a two to nothing vote [on IBM]. [We are] better off not talking our book. Either we or the company will be buying back stock in the future and we'd like the price to be lower. If we were to [talk our book], we would rather say pessimistic things about all four of our biggest holdings. I am not sure why people keep talking their book.

**CM:** Warren, if people weren't so often wrong, we wouldn't be so rich." *[Laughter]*

**Q5: Question for Warren. Do you agree with Charlie's point [made in the annual letter] that you cannot repeat your success if you were to start over today?**

**WB:** Three historical pieces of luck were involved related to the insurance business:

1. The meeting with Lorimer Davidson (Davy) and the education he provided about the insurance business when I was 20 years old.
2. Buying National Indemnity in 1967 from Jack Ringwalt.
3. The arrival of Ajit Jain into the Berkshire offices on a Saturday in the mid-80s.

So probably the odds of repeating this trifecta are low. Always be open to ideas. I could understand insurance very well; it was my sweet spot. Try to

get past bad accidents. Reinsurance was created in Omaha.

**Q6: Question about enduring Berkshire's culture "after you leave".**

**WB:** [The] Berkshire culture runs deep as any large company. It is a vital part of Berkshire to have a clearly defined and deeply embedded culture. I expect it to continue and become even stronger. It [culture within Berkshire] has been institutionalized. When you have 97% of shareholders vote and say they do not want a dividend..... I don't think there is another company like that in the world. It will continue for decades and decades to come. Culture is everything at Berkshire.

**CM:** I don't think anyone has done this on Wall Street. [But] there are worse tragedies than Berkshire compounding at old rates.

**WB:** Name one. *[Laughter]*

**Q7: Impact of sugar on consumer health and "have we reached an inflection point? Is Coke's moat narrowing?"**

**WB:** 20 years from now, more Coke will be consumed. In the early 1900s and in 1988, the same was said about Coke. I estimate that a quarter of all calories I have consumed in my lifetime has come from Coke. *[Laughter]* I am not sure which quarter. *[Laughter again]*

**CM:** Sugar is enormously helpful. It prevents the premature softening of the arteries. *[Laughter]*

**WB:** Food brands are very durable. *[Cited General Foods]* You don't see smiles on people's faces at Whole Foods. They are not happy. *[Laughter]*

**Q8: Another question on buying more auto dealerships and consolidating and scaling the businesses.**

**WB:** There are no huge economies of scale. But running them well is important. We don't bring anything into auto finance. We leave that up to the banks. They are the lenders and their cost of capital is going to be lower than ours. (mentioned Wells Fargo) We will keep the dealerships local. Don't see widening of margins. Van Tuyl is similar to Kiewit. They have a very good culture. Culture is easier to build at smaller enterprises. It takes a very long time to build the right culture.

**CM:** We were always dissatisfied with what we knew and wanted to know more. Always liked learning.

**Q9: Question on the general level of the market within context of the two metrics that WB has stated in the past as good indicators:**

**a. The Buffett metric: Market cap to GDP, now at 125%, and**

**b. Corporate profits as a % of GNP; 10.5% "as of Friday." [citing the St. Louis Fed]**

**WB:** The high corporate profit as a % of GNP means that American businesses are doing well. Market cap to GDP is high because we are in a low interest rate environment. Years ago, we had thought such a scenario [long period of low interest rates] impossible. Look at the metrics in context of low interest rates and how long this will prevail. We have never made or turned down acquisitions based on macro factors. We look at what is likely to be the average profitability of a business.

**CM:** Since we failed to predict [the current scenario], why would anyone ask us now?

**WB:** If a business has an economist, they have one employee too many. *[Laughter]*

**Q10: Question about Railroads and how the new rules regarding oil tankers would impact BNSF and Marmon (Union Tank Car Co.)**

**WB:** Union Tank Car Company's and BNSF's interests diverge in some ways. Safety will improve. BNSF and Berkshire Energy have the best safety records in their industry. We will not be buying new railroad cars. Focus will be on retrofitting.

**Q11: How can students who haven't gone to prestigious business schools make friends with influential people?**

**CM:** You should just try hard. *[Laughter]* Play the hand you're dealt. *[Laughter]* I don't have a business school training, why should you? *[Laughter]*

**WB:** But Charlie went to law school.

**CM:** *[On "modern profit greedy law firms", quotes his son-in-law.]* "It's like a pie eating contest and if you win you get to eat more pie." *[Laughter]*

**Q12: Question about moving capital around within the insurance business.**

**WB:** A huge chunk of the capital within insurance is within National Indemnity. So moving around some to make it simpler.

**Q13: Question on Asian Infrastructure Investment Bank (AIIB) and if US should join?**

**WB:** That's a subject I know absolutely nothing about.

**CM:** I know less than you do. *[Laughter]*

**WB:** We would be bluffing if we started answering that question. Do you have another question you want to ask?

**Q14:** *[Same person]* **Question on US Dollar's stature as the reserve currency.**

**WB:** The probability that the dollar will be the reserve currency 50 years from now is very high.

**CM:** I am nervous about printing a lot of money and spending. I am happier if it is used for infrastructure rather than spreading it around from a helicopter.

**Q15:** **Question about rebranding Berkshire companies and using the Berkshire Hathaway name. Will it continue beyond Energy and Home Services?**

**CM:** Brands like See's are enormously valuable. Naming it Berkshire Hathaway Peanut Brittle will be crazy. *[Laughter]*

**Q16:** **Is there more disruption or more opportunities in Energy?**

**WB:** *[There are]* more opportunities in wind and solar. Right now facilities are developed using tax credits. This enables Berkshire Energy to invest far more money, as it is part of the consolidated tax return of Berkshire. Most utilities don't pay that much income tax and therefore cannot invest as much. Greg?

**Greg Abel:** Renewable energy is getting to be a larger portion. 58% energy provided in Iowa is coming from Wind.

**Q17:** **What was the biggest mistake you've made?**

**WB:** Dexter *[Shoes]* was by far the biggest mistake. *[We]* magnified it by issuing shares. Any time we have issued shares, it's been a mistake.

**CM:** Of course. We don't do that much these days.

**WB:** *[On missed opportunities due to reluctance to take on undue risk]* If we'd used leverage, Berkshire would be much bigger now but we would be sweating nights.

**CM:** And it is not fun sweating nights.

**WB:** Yes, not when thinking about financials! *[Laughter]*

**Q18:** **You warned in 2008 of the possibility of inflation. Do you think that is still possible?**

**WB:** We wouldn't have predicted 5-6 years of low interest rates and negative rates in Europe. (cites Poland). The country *[US]* can sustain 2-2.5% of deficit and not increase the debt/GDP ratio. *[It is]* hard to see that we wouldn't have inflation *[in the future]*.

**Q19:** **Question about the discrepancy between cash taxes and reported taxes (\$37B) and if deferred tax liability is similar to float. "Will the deferred taxes be ever have to be paid?"**

**WB:** Two types of float from taxes 1. Realized appreciation from securities. 2. \$37B is a factor of accelerated depreciation, total is around \$60B. Wouldn't look at deferred taxes as a hidden form of equity. But if corporate tax rates change, then you would have a major change in deferred taxes.

**CM:** But it will be a book entry and meaningless.

**WB:** [Deferred taxes] is a plus but not a big asset.

**Q20: What have you learned from Henry Singleton at Teledyne?**

**WB:** There is a lot to be learned from Singleton. Charlie knew him well so I will let Charlie speak.

**CM:** Singleton used clever incentives on key executives. But the culture got so strong that it went too far, leading to scandals.

**WB:** We really believe in the power of incentives but there are hidden incentives. Examples are ego, loyalty to CEO etc. *[Citing an example from National Indemnity]*. There was a person in the claims department at National Indemnity that worked for Jack Ringwalt. Ringwalt used to berate [albeit jokingly] whenever claims costs were presented to him. It went so far that the person started hiding claims. He had no financial incentive to do so but he didn't like Jack berating him and telling him about his failings.

**Q21: Is Berkshire too big to fail?**

**WB:** In Europe there are nine insurance companies in this category. In US the SIFYs include large banks and a few non-banks *[mentioned GE, Prudential and Metropolitan]*. The definition of a non-bank SIFY is that at least 85% of revenues should be financial. Berkshire's revenue from finance is around 20% or something. Berkshire does not come within miles of qualifying as a SIFY.

**CM:** There is still too much risk in high finance. The idea that Dodd-Frank has removed all risks is silly. There is still some danger in high finance. Our competitors don't like that they're regulated and

we're not..... and there's danger in that too.

**Q22: Is channel conflict a problem within Berkshire's insurance businesses?**

**WB:** Channel conflict is not a big problem in insurance. We like experimenting. Commercial auto is not going as fast as individual policy business.

**Q23: Another question related to 3G Capital and their focus on increasing productivity/efficiency, competition and consolidation within the CPG industry.**

**WB:** Private labels have been around for a long time. Sam Walton sent me a six-pack of Sam's Cola. Brands, you have to nourish them. Lots of people have tried other cola brands. Wilkinson came up with [stainless steel] blades but Gillette owns 70% of the market share. If you have a good brand and [you] protect it, it is a fabulous asset.

**CM:** What would our country be if we kept everyone at the farm? [referring to increased productivity in agriculture over the years]

**Q24: Question from a Chinese shareholder. Can value investing be applied in all markets?**

**WB:** Investing principles do not stop at borders. China would do well if people embrace value-investing principles. It is an irony that times that are not great for the society - e.g. 1973-74, when the stock market is cheap - are the best times to invest. It is an easy game if you can control your emotions. Chinese market may have more speculation and greater extremes and excesses. But eventually, will get to great opportunities.

**CM:** I don't think value investing can ever go out of style. People are looking for an easier way; it

looks easier but is harder.

**WB:** I would look at stocks the same way as you would look at a farm or an apartment.

**Q25: Chemical, Nuclear, Biological, Cyber (CNBC) threat and how does it affect the outlook for Berkshire?** *[This question led to a discussion on the importance of China]*

**WB:** We have a wonderful economic system. The prosperity of this country has come from unleashing the brains and energy of people. Rogue states and mad men are a threat and they are not going to go away. We need to be vigilant. The luckiest person in the world today is the baby being born in the US now.

**CM:** China has come up a lot faster than any other nation.

**WB:** But that's good for us.

**CM:** I think it is very important that we like and trust one another, work together, and collaborate. I don't think there is anything more important.

**WB:** *[To CM]* Would you rather be born now?

**CM:** It is interesting times now but it always was interesting. I don't like these theoretical questions. You gain nothing or it doesn't help someone else gain an advantage. *[Laughter]*

**Q26: Question on Ted Weschler and Todd Combs.**

**WB:** We've seen high IQ people self-destruct trying to make money they don't need. That's madness!

**CM:** Trustworthiness is more important than brains.

*[That was the last question before the lunch break. Before breaking for lunch, WB puts up the chart showing the head to head figures related to the bet with Protégé Partners.]*

*Cumulative results after 7 years shown were:*

*S&P/Index fund: 63.5%*

*Fund of funds: 19.6%*

*WB mentioned how the zero coupon bond holdings were replaced by BRK.B shares and that should provide the charity with a lot more than a million dollars when the bet is done. He said [longbets.org](http://longbets.org) was an interesting site where you could challenge other people on long-term predictions and bet against them.]*

*[One-hour lunch break 12p-1p]*

*[First question post recess follows]*

**Q27: Which are the types of businesses that will be best to own in a period of high inflation?**

**WB:** The businesses you buy once and don't have to make capital investments; businesses without the problem of continuous reinvestment. That is why real estate as an investment works well in an inflationary period. There is a one-time outlay and it gets an inflationary kick and no [further] inflationary capital is required. Within capital-intensive businesses, depreciation charges are inadequate in inflationary periods.

Brands are wonderful things to own during inflation. Gillette owned the World Series radio rights in 1939 and it worked out very well for them.

[\[http://archives.chicagotribune.com/1939/08/18/pag](http://archives.chicagotribune.com/1939/08/18/pag)

[e/21/article/a-100-000-radio-deal-is-completed\]](https://www.barrons.com/articles/berkshire-specialty-insurance-100-000-radio-deal-is-completed)

**CM:** If inflation goes out of control you don't know how it is going to end up. The Weimar [Republic] and inflation led to Adolf Hitler and see what happened.

We don't want inflation to go helter-skelter for the sake of See's Candies [*referring to WB's comment on Brands*] [*Laughter*]

**Q28: Is the Berkshire Specialty insurance business doing well enough that you don't need to make an acquisition?**

**WB:** Berkshire Specialty could be a very big operation 5-10 years from now. We don't need to buy; there is almost 0% probability of us acquiring someone in this space. Charlie?

**CM:** I certainly agree with you.

**WB:** He keeps his job. [*Laughter*]

**Q29: Question on business models and culture.**

**WB:** Reputation takes time, a long time to build. We try to behave better as we become more prosperous. There is no way to guarantee a brand. [*WB cited what Giovanni Agnelli (patriarch of Fiat) told him once during a dinner*]: "When you get old you get the reputation you deserve." You can fool people for some time but not forever. Same is true for companies.

**Q30: Many insurance companies cite global warming as a risk that impacts their business and pricing. How does it affect Berkshire?**

**WB:** We price our insurance every year, one year at a time unlike life insurance. So nothing on a yearly basis that global warming is causing me to affect

my prices, even by a small amount. But if I was writing a 50-year wind farm policy in Florida, I would think hardly about the effect of global warming.

**CM:** It is not clear what the effects of global warming would be at extremes of weather. It's not that global warming isn't happening but [*saying how it sometimes gets to be a "crazy ideology"*] people get so invested in the idea to make all kinds of crazy extrapolation.

**WB:** [*mentioned Marvin the Torch, a Jimmy Breslin character*]

**Q31: Question about how Energy/Oil & Gas investments have not worked out well for Berkshire.** [*The person who asked the question also mentioned that as per his calculations, Berkshire had sold both COP and XOM at a loss.*]

**WB:** We were required by our auditors to wind down the ConocoPhillips position. We actually made some money on both investments. We will not be buying a lot of oil and gas companies. We look at our cash position when we make decisions.

**CM:** Exxon wasn't a bad cash substitute. Dividend yield was high at the prices we bought.

**WB:** But Berkshire Energy is different. There is nothing we like better than backing Greg Abel in buying energy companies. Berkshire Energy will continue to look for opportunities within the utilities industry. We look for strong management, strong growth prospects and constructive regulatory jurisdiction as key attributes for acquisition. [*Cited NV Energy and AltaLink as meeting all these requirements.*]



**Q32: Question about how best to improve/revise the tax code in the US.**

**WB:** The share of corporate profits to GDP is at record levels. But corporate taxes decreased as a percentage of GDP. It used to be around 4% of GDP 40 years ago and now it is around 2%, which is not an onerous number. We could raise this figure actually. *[Mentioning how corporate rates were much higher in the past]* The tax code can be made more rational but I don't shed any tears for American businesses over the tax code. American businesses are earning around 15% on tangible equity.

**CM:** California has a stupid tax policy. They are driving rich people out of California, which is really demented. Florida has got this right. We could see a new corporate code by the end of the year.

**Q33: How has The Wealth of Nations impacted you and what have you learned from Adam Smith?**

**WB:** Reading The Wealth of Nations did not shape my investment process but I learned economics from it. If you read Keynes, Adam Smith, Ricardo and *Where are the Customers' Yachts?* [by Fred Schwed], you will have a lot of wisdom. *Where are the Customers' Yachts?* has an incredible amount of wisdom in a few pages.

**CM:** Adam Smith was recognized rightly as one of the wisest people that came along. The productive power of the capitalist system is unbelievable.

**WB:** I have used an idea from Adam Smith *[alluding to the concept of the division of labor]*. It is to let other people do what they're best at and work in the field that you're most productive. *[mentioned his decision to have the Gates*

*Foundation manage his philanthropic activities]*

**Q34: Have you found that management from the public companies you acquire have a harder time making long-term decisions?**

**WB:** I don't think we have that issue. Not sure where you got that idea. Our managers know how to run the Berkshire businesses for the next 100 years. We don't ignore the short-term figures, we just don't live by them.

**Q35: Question on Germany and companies in Germany. What are the differences between corporate cultures in Germany and US?**

**CM:** The Germans work less and produce more and I like that kind of productivity.

**WB:** I predict that we will buy at least one more company in Germany in the next 5 years. We now have a person there who knows what we want. We may get into family situations. There is a reasonable chance that prices are better and catch my attention when compared to US prices.

**Q36: Question from a 78-year-old shareholder. My policy with GEICO is not priced lower than competition. Why is that?**

**WB:** Only in 40% of the instances would you find a lower price on policies. [There is a] 60% chance you will not. Our competition has different underwriting weightings but on average GEICO would be lower. No company of size will be the lowest priced more often than GEICO. It's definitely worth 15 minutes to call GEICO and find out. *[Laughter]*

**CM:** You did find out that you are not deteriorating as fast as your contemporaries; you may be paying a

higher rate for your auto insurance but that's a good tradeoff. *[Laughter]*

**Q37: Question about the changes in the reinsurance business and how WB and Ajit Jain are thinking about the industry.**

**WB:** The reinsurance business is unlikely to be as good as it was. It has become a fashionable asset class as funds are looking for uncorrelated risks. People may not know what they're getting into. It is also being used as a vehicle for hedge funds - using the facade of reinsurance to cover their real motivation *[for obtaining a tax-advantaged status offshore]*. This has led to less attractive prices. But there are certain things in the reinsurance market that only Berkshire can do.

**CM:** Competition from promotional finance is searching for robust variation. We're not; we are playing the game for the long pull.

**Q38: Question from a 7-year-old shareholder. How do you make friends and how do you get people to like you?**

**CM:** I was obnoxious [when I was young] and asked a lot of impertinent questions and people didn't like me. So I figured the only way to get people to like me was to get rich and generous quickly.

**WB:** I was obnoxious too but I tried and changed my behavior as I aged and learned from my teachers. You should get smarter about human behavior as you move along. Try to list the attributes you see in people you like, and try to change your behavior accordingly.

**CM:** That really works in marriage. If you try to change your behavior instead of your spouse's that

is usually a good recipe. *[Laughter]*

**Q39: Was buying Netjets a mistake? (mentioned the pilot strike that was going on and the protests outside the arena). What is the return on capital investment at Netjets?**

**WB:** *[Answering the latter part of the question]* That is not a good way to look at Netjets as we resell our fleet. In 50 years we've had 3 strikes among hundreds of labor unions at Berkshire: 1. At our textile business 2. At Buffalo News, 30 years ago, and 3. At See's Candies.

It is human nature to have differences. We have no anti-union agenda and our pilots are sensational.

**CM:** I've never had a Netjets pilot complain to me during my trips. I'm not so sure if the union is fairly representing the pilots. *[Laughter]*

**Q40: On Duracell. The core business is in decline and would you have done the deal without tax considerations?**

**WB:** Both P&G and Berkshire had tax benefits. It is similar to real estate exchange agreements.

**Q41: Views on philanthropy.**

**WB:** There is no Forbes 400 in the graveyard. So where does the money do most good? [Money] has no utility to me. Have everything I need for but it has so much more utility for someone else. We know what we like and what we don't like. We don't judge by what other people like.

**CM:** The estate tax change is a very desirable change.

**Q42: Would you consider returning capital to Berkshire shareholders using assets like Coca-**

**Cola stock through a tax efficient transaction?**  
*[Mentioned “what Yahoo! has done recently with Alibaba stock.]*

**CM:** There is no way to do that.

**WB:** There used to be a way to do that. I don't think we can use appreciated securities to distribute to shareholders without a capital gains tax. Can use it to acquire companies. [Don't think Yahoo! has really done this]

**Q43: Household formation rates: It remains low. Is it still cyclical?**

**WB:** More likely to be, but don't know for sure. But I suspect young people would want to own homes. It turns down in a recession and you could argue that we are still in one.

**CM:** I have some grandchildren that I wish would marry somebody suitable promptly. They should quit looking for the pie in the sky....

**WB:** Are they here?

**CM:** I think some of them are.

**Q44: Question on corporate philanthropy.**

**WB:** I am much more a believer in individual philanthropy than corporate philanthropy. Shareholders should be determining their own charities. I don't feel like it is my money to spend [company funds]. We had a good shareholder contribution system but we had to change.

**CM:** My taste for giving away somebody else's money is also very restrained. *[Laughter]*

**Q45: Does the Euro have a positive or negative impact on EU policy? Should France stay within EU?**

**CM:** I haven't the faintest idea. The Euro had a noble motivation and has done a lot of good. There are countries in there [in EU] that shouldn't be in there. They created something that is unwise. You can't get into a business partnership with your frivolous, drunken brother-in-law. *[Laughter]*

**WB:** It is a good idea that needs some work. There are flaws but that doesn't mean it can't be corrected. You can try and fix it.

**CM:** Euro has investment banker aided fraud. Not exactly novel.

**WB:** We could've made a North American currency with Canada and make it work.

**CM:** Yes, we could've.

**WB:** But we can't have a hemisphere wide currency.

**CM:** There's Argentina! *[Laughter]*

**WB:** He likes to name names. I praise by name and criticize by category. *[Laughter]*. In its present form it [the Euro] is not going to work.

Charlie?

I don't know why I'm asking you...nothing Charlie.

**CM:** I think I've offended enough people. *[Laughter]*

**Q46: Are there synergies between Van Tuyl and GEICO?**

**WB:** I don't think so. Historically it hasn't been effective.

**CM:** I agree. It's a very dumb idea. We are not going to do it. *[Laughter]*

**Q47: Question on Silver as an investment. Do you still follow the Silver market?**

**WB:** I haven't paid attention to the [silver] market in a very long time.

**CM:** It's a good thing too! *[Laughter]*

**WB:** Silver market is very small. Silver is mostly a by-product so does not follow the normal supply and demand [curves]

**Q48: On Activism. If Warren is going to give away all his shares, how would Berkshire defend itself from activists. Also, would you deem it a success if the business is broken up and individual parts sold at a premium?**

*[I think this question started with: "Warren and Charlie will not be around forever" to which WB retorted emphatically, "I reject such defeatism!" [Laughter]]*

**WB:** The notion of breaking up companies and selling parts at a premium does not really work. If the parent is deemed to be selling at 15x and parts can be sold for 20x, the parent wouldn't sell at 15x in the first place. There are a lot of benefits to the way Berkshire is structured and there is nothing to be gained by splitting it up. I think it is unlikely in any long or medium term that the value of the parts will exceed the value of the whole. The best defense

against activism is performance. It is now easy to raise money for activist funds as people are reaching for returns. We should be a place where people can dump [for/their] activism. Market value of Berkshire will keep rising and I think that will prevent any meaningful activism.

**CM:** It is not a constructive activity [activists indiscriminately urging for share repurchases] because they are acquiring shares that trade more than intrinsic value. Before, there was no activism when price was less than intrinsic value.

**WB:** It's a very simple decision. Can you repurchase shares below intrinsic value? History of share repurchases is that it falls off a cliff when prices are low and peaks when stock prices move higher. Berkshire will not buy at 200% book.

**CM:** I can't think of many activists I want to marry into my family.

**WB:** I've got to stop him before he names names. *[Laughter]*

**Q49: American Express: How does it defend its moat?**

**WB:** All aspects of payment are open to innovation. Ken Chenault has done a good job of anticipating changes. There is a lot of loyalty towards American Express. I believe that proprietary cards are better than co-branded cards. I should be careful as I say that with a Costco director sitting beside me. We would have been happier if the stock price was down. Buybacks would be a lot better.

**CM:** I'd prefer if they had a little less competition but that is life.

**WB:** *[on the history of American Express]* American Express has an incredible history of adapting. They started as an express company involved in transportation of goods and they were replaced by railroads. They then got into traveler's cheques and Diner's club came along with their credit cards. American Express then started their credit card business and priced it at \$5 and built a premium brand. They are very nimble, very smart and in recent years have met all kinds of challenges.

**Q50: How to teach children about finance and money?**

**CM:** I failed in this activity with some of my relatives. I can't help you. *[Laughter]*

**WB:** Learn early on; encourage good habits very early on. The chains of habit are too light to be felt until they are too heavy to be broken.

*[WB announces that questions from here on out are from the audience only]*

**Q51: Question on closing out/unwinding the equity put options and de-levering Berkshire.**

**WB:** I would like to close out the equity puts but it is unlikely we can agree on the price. I think it is very likely they just run out over time.

We virtually have no debt and there isn't much to de-lever. Money is so cheap that it causes people to do almost anything on the asset side. We don't want to loosen our standards due to the liability side being very cheap. Our float is very close to permanent. Logically, we should take on more debt at these rates. We could use debt if a large deal came about.

**CM:** We haven't felt capital constrained in a long

time. We would love to be. It would be glorious!

**Q52: Another question on auto dealerships and scaling the dealership business.**

**WB:** There are 17,000 dealers [in the US] and we own 81, so there is room to move. But problem is price. We will be using the Van Tuyl price as the yardstick. If anything, we will buy for a price little less. We would rather buy at 10x to 12x of a bad year than an 8x of a good year, but that's not how sellers and buyers think.

*[Many questions were asked by shareholders from China]*

**Q53: Shareholder from China: What is your secret for staying so young and energetic? Will we see you more on the Internet?**

**WB:** I can't wait to hear Charlie's response to that!

**CM:** Warren is a bigger Internet user than I am.

**WB:** If I would have to give up my plane which costs about \$1million a year or give up Internet which costs about \$100, I would give up the plane. Where else can you, on a cold and snowy evening, get three of your friends to get together for a game of Bridge?

**CM:** I don't like multitasking. I am so stupid that I have to think hard and think long. *[Laughter]*  
*[to WB]* How many Bloomberg terminals do you have in the office?

**WB:** I think two. We should ask Carrie. *[Receives answer that there are three but one is free of cost]* We'll need to look at that when I get back to the office. We have to negotiate the same deal on the other two. *[Laughter]*

**Q54:** I'm Whitney Tilson, a shareholder from NY. Mr. Buffett, I know many shareholders have felt irritation (to put it mildly) when you've weighed in on social issues such tax policy or endorsed and raised money for a particular candidate, but I for one applaud it. I think everyone, but especially people who've achieved wealth and prominence and, thus, have real ability to effect change, have a duty to try to make the world a better place, not just through charitable donations but also through political engagement – and I'd say that even to people whose political views are contrary to my own. My question relates to one of the big issues today: rising income inequality and, related to this, the campaign to raise the minimum wage, which has had some recent successes with some of the largest businesses in the country like Wal-Mart Stores, and McDonald's. How concerned are you about income inequality, do you think raising the minimum wage is a good idea, and do you think these efforts might meaningfully affect the profitability of corporate America?

**WB:** I think it's extraordinary in the United States to see how far we've gone. Let's just go back to my own case. Since I was born in 1930, the average GDP per capita of the United States has gone up 6 for 1. And my parents thought they were living in a reasonably decent economy in 1930, and here their son has lived to where the average is six times what it was then. If you'd asked them at that time, and they'd known that fact, that it would go from \$8 or \$9 thousand in today's terms to \$54,000, they would've said, "Well, everybody in America is going to be enjoying perfect lives." But clearly they're not.

So I think it is a huge factor. There are a million causes for it, and I don't pretend to know all the

answers in terms of working toward solutions. But I do think that everybody that is willing to work should have a reasonably decent livelihood in a country like the United States. *[applause]* How that is best achieved...I'm actually going to write something on it pretty soon.

I have nothing against raising the minimum wage, but to raise it to a level sufficient to really change things very much I think would cost a while lot of jobs. There are such things as supply and demand curves, and if you were to move it up dramatically, I think you would...it's a form of price fixing...I think you would change the opportunities available to people very dramatically.

So I'm much more of a believer in reforming and enlarging the earned income tax credit, which rewards people that work but also takes care of those whose skills don't fit well into the market system.

I think you've put your finger on a very big problem. I don't have anything against raising the minimum wage, but I don't think you can do it in a significant enough way without creating a lot of distortions, whereas I do think the earned income tax credit makes a lot of sense, and I think it can be improved.

There's a lot of fraud in it, it pays out just a lump sum so you get into these payday-type loans against it. There's a lot of improvements to be made in it, but I think the answer lies more in that particular policy than the minimum wage.

As I said, I think I'll write something on it pretty soon, and if there's anybody I haven't made mad yet, then I'll take care of it in the next one. *[laughter]*.

Charlie?

**CM:** Well you've just heard a Democrat speaking, and here's a Republican who says I agree with him. *[laughter]* I think if we raise the minimum wage a lot, it would be massively stupid and hurt the poor. And I think it would help the poor to make the earned income credit bigger. *[applause]*

**Q55: Question on China.**

**CM:** I am a big fan of China. They are smart in copying Lee Kuan Yew. LKY drove out corruption. He paid civil servants better and recruited better. He created a better system and China is essentially copying [his system]. I am high on China. They have come up so far so fast. It has never happened in the history of the world that a country of this size has come so far so fast. I give a lot of credit [to them] in copying LKY. That is what Berkshire does, copy great people.

**Q56: How did you figure out operational metrics in new industries/businesses you were evaluating 50 years ago [when you started]?**

**WB:** We try to get a feel for what the company would look like 5-10 years from now. Prices were different.....much easier decisions than in current [environment]. We kept reading and kept thinking and things came along. We lean towards things where we are certain to get a decent result vs. getting a brilliant result from something that we are not as sure of.

**CM:** We made some of our luck by being curious and seeking wisdom. But there is nothing like getting your nose whacked to obtain wisdom. *[talking about experience]*. Everyone who has followed the Graham-Newman path has done well. If you just avoid being an idiot [you would do well].

**Q57: What matters to you most and why?**

**CM:** I was better at figuring things out and I knew I was never going to be good at anything else. A man's duty is to become as rational as he can possibly be. I do think rationality is a moral duty. That is why I like Confucius. At Berkshire we see it the way it is.

**WB:** Yes, we do.

**CM:** It goes beyond a technique to [just] amassing wealth. It is not illegal or ignorant or anything, but I think it is dishonorable to stay stupider than you have to.

**WB:** What matters most to me is that Berkshire does well.

**CM:** We hate losing somebody else's money. *[To WB]* Don't you hate it?

**WB:** That would be the only thing that would keep me up at night.....actually something that would be detrimental to Berkshire.

**Q58: What would be the answer to the most important question I could ask you right now?**

**CM:** Everybody tries that question. It would be wonderful if I could just tell you that. I don't think it is a very good question. You're asking too much of a person.

**Q59: What were the factors of success early on when you started with small funds?**

**WB:** I had a great teacher, exceptional focus, right emotional qualities and enjoyed the game. The philosophy from Ben [Graham] made total sense.

**CM:** It is an easy game if someone's got the temperament for it and keeps at it. I don't think getting rich investing for yourself by buying pieces of paper is enough of a life to be shrewd. There is no real contribution to civilization.

*[To WB]* If you'd kept running that partnership forever, you would have been less of a man [than you are now]. It is a crazy way to go through life.  
*[WB concurs]*

*[Last question]*

**Q60: Question on the Wall Street Journal and its moat and advantages.**

**WB:** Dow Jones basically owned the financial field and the news ticker in the 60's and there was incredible growth in the industry for the next 30-40 years. But they totally miss it when Michael Bloomberg comes along and takes away financial information. They could have made the company billions of dollars. Starting with a good position-trusted name and [entrenched] in every brokerage in the country and with a good balance sheet - they let the world pass by.

**CM:** *[to WB]* They didn't destroy the company; it still ended up at \$5-\$6 billion dollars.

**WB:** *[to CM]* If Tom Murphy had that hand it would have been billions.

**CM:** I don't think Murph is all that different from us.

*[A quick business meeting is conducted in 15 minutes and the session is adjourned]*