Adam Blum's notes from 2018 Berkshire Hathaway annual meeting
May 5, 2018
Omaha

Friends,
Here are my notes from this year's Berkshire Hathaway annual meeting held in Omaha on May 5th, 2018.

Thanks,
Adam
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"I'm Warren. He's Charlie. Charlie does most things better than I do, but this one's tough [referencing a box of peanut brittle that he is trying to open]. Charlie, maybe you can chew on it a while."

<u>Introduction – Perspective on how to think about investments</u>

"Here's some personal history, with *The New York Times* front pages from March 10-12, 1942. You can see I'm a little behind on my reading. This was three months after we got involved in World War II, and we were losing, and headlines were full of bad news about the Pacific. The price of the newspaper was 3 cents, incidentally. On March 10, the stock market was reflecting this news. And I'd been watching City Service preferred stock for a while. It was $84 a share the previous year and $55 a share at the beginning of 1942, and then in March it was down to $40 a share. On the 11th, I told my dad I wanted to buy three shares. That was all the money I had at the time – I was only eleven years old. So he bought the shares for me. On the next day, the stock market was down 2.28% and broke 100 on downside, which is the equivalent of a 500-point drop. I was in school wondering what was going on. My dad had bought me the stock at $38.25, which was the high for day, and it was down to $37 by the end of day. Even though the war looked bad until the Battle of Midway, the stock did well and was called for over $200 a share by City Service. But I'd sold at $40 for $5.25 gain after watching it go down to $27. What's the point? Imagine myself on March 11, 1942. Things were looking bad, but everyone knew we'd win the war, and the system had been working well since 1776. Investing $10,000 in an index fund in 1942 to own a piece of American business would now be worth $51 million, and you wouldn't have had to do anything. You wouldn't have had to understand accounting or look at quotations. All you had to do was figure that America would do well over time, and American business would in turn do well and overcome difficulties. You didn't have to pick out winning stocks or know when to buy or sell. The overriding question is, 'how is American business going to do over your investing lifetime?' If you had taken $10,000 and listened to the prophets of doom and gloom and bought 300 ounces of gold instead, today that still would be 300 ounces of gold. You could go down to the safety deposit box and look at it and fondle it, and it wouldn't produce anything. That gold would be worth $400,000 today. If you'd decided to go with a nonproductive asset versus a productive one, it is one hundred times the value difference. Every dollar earned in investing in the American business was matched by less than a penny gained by investing in a 'store of value' like gold over the same period. We have the greatest tailwind you could ever imagine in this country. There's no comparison trying to jump in and out of stocks and pay investment advisors and invest in nonproductive assets. If everyone had just bought in, your friendly stock broker would've starved to death, and you could've gone to his funeral to atone for it. You do not have to know about accounting and terminology and what the Fed is doing. It's about a philosophy and forgetting what you don't know how to do."

Q1 – Are you semi-retired now that Ajit and Greg help manage operating businesses and Ted and Todd help you with the investing businesses?

"I've been semi-retired for decades. The jobs now done by Ajit and Greg have been great for us. As for the investing sub-part by Ted and Todd, each manage $12-13 billion of Berkshire's $170 billion of equities and $20 billion of bonds and $110 billion of cash, so I still have responsibility for other $300 billion with float. Charlie would say nothing has changed that much. Ajit and Greg are smarter and more energetic than we are and bring more to job every day, but they don't bring too much to hurt the culture with our managers. Ted and Todd are doing well and do a number of things cheerfully and skillfully. I sometimes steal their ideas." Charlie: "Warren sits around reading and thinking, and every once in a while talks to someone on the phone. When you have nothing to do, Warren is very good at doing nothing." Warren: "I am still looking forward to be a mattress tester."

Q2 – Precision Castparts

"It's a very, very good business. In the aircraft part supply industry, reliability in terms of quality and delivery times are enormously important. Contracts extend out many years, well before a plane starts in production. We've found in the last year that other suppliers have failed in deliveries. Our earnings are charged with $400 million of intangibles. It's not a real cost in my opinion. So, whatever you see, add this back, since it's not an economic expense. But accountants would argue otherwise. But it's our money, so we'll take my view. Mark Donegan is a fabulous manager and has been very helpful in other areas. You can't beat him as a manager in his own operation and with his devotion to doing what he can to help Berkshire." Charlie: "I would buy another one just like it tomorrow if I had the chance." Warren: "He's a man of few words but gets to the point."

Q3 – China and trade

"I will be 88 in August. In 8^{th} month of year ends with an 8, this is very lucky in China. If you find anything over there me to acquire, look out please. The US and China will be two superpowers of the world for a long time. We have a lot of common interests, and there will be times when there are tensions. But it's win/win when the world trades, and those countries are two big factors in that. The nice thing about it is both republicans and democrats believe in the benefits of free trade and will have disagreements, but this is too big and too obvious. The benefits are huge, and the world is dependent on trade for its progress. These two intelligent countries won't do something extremely foolish. Sure, they do some mildly foolish things, and there's some give and take. In 1970, imports and exports were 5% of GDP, and now exports are 11+% and imports 14+% of GDP. I don't want the gap to be too wide. It's not the worst thing to have someone send you goods you want and hand them a piece of paper. The world gets more claim checks on us, and the balancing item is the investments rest of world can make. Both countries have done remarkably well with trade, and the only problem is when one side wants to win a little too much. But we won't sacrifice world prosperity over differences that arise on trade." Charlie: "Both countries are advancing, and China is faster, it came from a lower base and has more virtue with its high savings rate. And it was mired in poverty for a long time, so it will grow faster. Both countries are getting along fine, and both will realize last thing they should do is have ill will for the other."

Q4 – Will Berkshire still be an attractive buyer for businesses looking to sell in the future?
"[Former Heinz CEO] Tony O'Reilly said that the responsibility of CEO is to search the organization and find the person with all the successor qualities, and fire the guy. The reputation of Berkshire as being a very good home for companies, particularly private companies, is not dependent on me or Charlie. There will be a little testing period for whoever takes over, but we have money to do the deals and will have the money, and others can see how our subsidiaries operate. If things get bad enough, people will be calling us. And they'll be dependent on Berkshire and not on me. My big winning personality is not delivering lately, as phone isn't ringing off the hook, so maybe the next guy will be better. But the reputation belongs to Berkshire and not to me. We absolutely are the first call and will continue to be for businesses who want a good home. It's already happening with subsidiaries or managers getting the calls instead of Charlie and me." Charlie: "99% of the changes of control in business happen at an auction run by an investment banker, and then the company is leveraged to the gills and re-leveraged. All the money comes from endowments and pension plans, and sooner or later this won't work very good, and there'll be an unpleasant episode. And we'll be around and in good shape at that time." Warren: "One fellow came to us who had seen a family business that had a transition after the death of the owner, and people were taking advantage of the widow, and this fellow decided he didn't want to sell his company to a competitor who was his logical buyer, because the buyer would fire everyone, and he didn't want to sell to private equity, as he didn't want the company to be leveraged and resold later. And he wanted to keep running it himself. He said, 'it isn't that you're such a great guy, it's just that you're the only one left.'"

Q5 – Insuring against the risk of a cyber attack
"Nobody knows the answer in insurance, but I consider it as part of the 2% risk of $400 billion super cat event happening per year. I don't think we or anyone else knows what we're doing in underwriting this. We don't know of interpretations or correlated incidents or the like. We can dream of a lot of cyber incidents but don't believe in feeding twisted people any ideas. We can figure the probability of a quake or a hurricane but don't know as much in cyber. If we're doing something for competitive reasons, we are going to try not to be too high in exposure to it, as it's uncharted territory on the insurance side and will get worse, not better. Your guess could be better than mine." Charlie: "If some computer went crazy and made someone broke who was securities trading, that would not be good. But we don't have computer programs doing our securities trading." Warren: "We are less likely to be careless in some stupid way, but something like this will destroy a lot of companies. We can have a $12 billion loss in a year and still have reasonable profit. We're in a different position than any insurance company in the world in terms of super cat." Charlie: "We don't want the guy who is about to retire with one foot out the door making decisions. The guy next to me has all his net worth in one security [BRK]."

Q6 – Can public entities ever be as successful at capital allocation and investing as private enterprises?
"It's too tough. I have nothing to add. The electorate's motivations and reward systems are so different. I can't add anything, sorry."

Q7 – Wells Fargo scandal and analogy of when it's better to change vessels than to patch leaks

"Wells Fargo proved the efficacy of incentives and had the wrong incentives, but the much greater error was ignoring the fact that they had a faulty incentive system. The cardinal sin at Berkshire is not doing something about it once you know. We can't have 387,000 employees and think everyone is behaving like Ben Franklin. Clearly, we don't want to incent anything bad, and when we find what's going on, we have to do something about it, and that's the key. Wells Fargo and Salomon didn't do it. It happened with Amex in 1964 and the same with half of Geico for $40 million, because someone didn't have enough reserves in the 1970s. The motive was to please Wall Street. Both companies emerged and came out incredibly stronger. So many investments have come from this. All the big banks have had troubles, and I see no reason why Wells Fargo, from an investment or moral standpoint, is inferior. They made a big mistake, and it cost them. I like it as investment, and I like [CEO] Tim Sloan. Charlie always says, 'an ounce of prevention is not worth pound of cure, it is worth a ton of cure.' We attack problems especially when everything is going fine. Charlie: "Wells Fargo will be better going forward. Harvey Weinstein has done a lot for improving behavior too. It was clearly an error, and they're acutely aware and embarrassed and don't want to have it happen again. They're likely to behave the best of all the banks in the future." Warren: "Look at that 1942 newspaper's classifieds with the help wanted separated between male female sections. People make mistakes. They do a lot of dumb things in this world. Geico was a lot more stupid than Wells Fargo and had the world by the tail, and now Geico has 13% market share. With Amex they asked the auditor at the annual meeting, 'how much did we pay you, and how much extra would it have been to go over to Bayonne to check how much oil was in the tanks?' There was a tiny operations guy calling in saying something was going on, and they didn't want to hear of it, but what emerged was a great company. You will get bad news, and what's important is to do something about it. Charlie has performed a lot of services for us related to this that you don't know about."

Q8 – On bailout deals in 2008 and possibility of doing more in the future

"We did get from Goldman, GE and BofA high rates on preferred shares. We could be extracted better terms, but that might've been counterproductive. If we really waited until panic developed further a few months later, maybe. We didn't want to do something that looked so high it'd be disadvantageous to Goldman or GE. They were going to take the terms offered, as no one else was around. We're actually working on something like this right now that probably won't happen that's a little smaller that came from Todd, and the other party doesn't care that they're talking to Todd and not Warren. Ted and Todd think just as well as I do. There'll be times when phone will ring a lot, and people won't hang up because I don't answer. It'll be harder to do deals like this in future, because our sums are larger, and some of these are once in fifty years events. But there's no difference that it comes through Todd or Ted and not me. I like to think I will be missed a little bit though."

Q9 - Still involved in pricing decisions at See's and Buffalo News?

"I was at one time. It's been a long time since then, and I can't tell you the per pound price of candy, because people in this group send me lots of free candy. The only thing is Ajit and I talk frequently on very big risk coverages. We each decide on a price in our heads and compare notes. You can't look up the risk in a book and see actuarially the what parameters will be in big, oddball situations, so Ajit and I do this and have been for three decades, and that is part of the fun. So you gotta go to Charlie if you want to complain about candy prices. Charlie: "That's because Ajit likes it that way. It largely depends on what they [managers] want and not what Warren wants. It's very peculiar for a company." Warren: "There's a CEO of one of our businesses – I've talked to him three times in the last the years, and he does remarkably well and may be better off having not talked to me. But on the other hand, I talk to Ajit frequently. Some stuff we talk about you can't look up in book. Actuarial talent is less important than judgment in these cases."

<u>Q10 – An accountant asks about why they're upset with new mark-to-market rules for income statement</u>

"The market value of our securities is now being reflected each period on our income statement. This is inconsistent. This $170 billion of partly owned companies we intend to own for decades and expect to grow and mark its value changes already on our balance sheet. Is it fair to change to force the value changes to flow through on the income statement when all our private company holdings aren't accounted for this way? That would become an appraisal process. To run through an income account and mark our 60 private businesses to market would not show meaning in terms of net income being a real indicator of what was produced in that period and would be a great disservice. It's fine for marketable securities on the balance sheet, but the income statement creates major issues. If we were to sell half of BNSF, we'd receive more than what we carry the entire investment at. If we had to appraise it every three months, it would lead to manipulation." Charlie: "A change in valuation always goes into net worth figures on the balance sheet already, and the questioner doesn't understand his own profession." Warren: "He's not supposed to talk that way, but sometimes it comes out."

<u>Q11 – Grocery margins</u>

"They're squeezed and very narrow (1% pretax and now less). And payment terms are also squeezed. The declines are greater than we thought. There's great temptation when employing so many and when you have so many distribution facilities already in the ground to meet irrational competition challenges, and that's capitalism. We will do our best to get margins up at McLane, but your guess is as good or better than mine in five years. They do $40-some billion, and it's a very essential service." Charlie: "I think you've described it very well."

<u>Q12 – Question about cognitive biases but instead they decided to talk about healthcare</u>

"We don't plan to start any healthcare companies. We simply have three organizations (Berkshire, Amazon, JP Morgan) with leaders we admire and trust and hope to do something which Charlie would correctly probably say is almost impossible. That is, to change a system that was taking 5% of GDP in 1960 and is now 18% of GDP. This is a hugely noncompetitive medical cost related to other companies in the world. Every dollar has 100 cents, so there's a cost problem and a tapeworm in American business. There are fewer doctors and nurses per capita, and the system delivers $3.3 trillion a year, and every one of those dollars has a constituency like in politics. We will find a chief executive – it shouldn't be too long. There's not a profit motive, just better medical services at a lower cost for employees. Maybe the three organizations which employ over a million people can help figure out a better way without that 18% growing to 20-22% of GDP in our children's lifetime, as there are 100 cents in a dollar. Ajit actuarially won't bet on us but can't quantify it. We are positioned better than most people to try and will give it a shot." Charlie: "The precedent for success in this is here. There was perfectly enormous improvement by John D. Rockefeller in healthcare. We imitate him in one way [in business] and now in another." Warren: "Incidentally , Rockefeller lived a long time, so actually we imitate him in three ways. There's no partnership agreement drawn up. Someone started doing it, and one of the CEOs put a stop to it. We can cut through the bureaucracy if something makes sense."

Q13 – Ted and Todd performance

"They beat the S&P over the last five years, but I won't report individual performance. They have been terrific. They have intellect and the record but are also exceptional human beings. Todd has done a tremendous amount of work on the medical project, and Ted has done several things better than I could've. Since inception they have almost identical records and received some incentive compensation only if they beat the S&P. It's better than I've done, so I can't criticize it. They were two very good choices." Charlie: "You did report their performance in previous years, just didn't this year, so now you have your report. The problem is size. It's hard to run $12-13 billion. It's a whole different game than $1 billion." Warren: "Like any good lawyer, never ask question unless you know the answer."

Q14 – Geico possible slowing its growth

"you're looking at a guy who never wanted to slow down growth. Prices led to the underwriting loss. We would've been slightly in the black without catastrophes. But 'except for' stuff doesn't mean much in insurance. We had to pay the light bills too. Our underwriting gain and margins are perfectly satisfactory now and will gain market share this year. Tony took over at 2% market share, and now it's at 13%. It's a jewel and an incredible company and has a culture all its own. And it's saving its customers $4-5 billion a year. Geico contributed $2 billion to float last year. Our first quarter results are much better even with some seasonality. The more growth, the better I like it." Charlie: "I think you've said it perfectly."

Q15 - Tariffs

"There's some jockeying back and forth, but I don't think either country [US or China] will dig into something that precipitates and continues any type of trade war. There'll be some back and forth, but we won't come out with a terrible answer." Charlie: "Steel conditions were almost unbelievably adverse to American steel industry. Even Donald Trump can be right on some of this stuff." Warren: "The President needs to be an educator-in-chief like FDR with his fireside chats communicating what needed to be done and was happening. Trade is difficult, as the benefits are not visible. We don't know what the costs of products and services would be if things were different. The negatives are very apparent and painful. Like the guy laid off from our shoe business in Maine who was very proud and a good worker and found out that his country was not competitive in shoemaking. Adam Smith and David Ricardo and all these benefits of trade make no difference when you have to retrain a 55-year-old. Politics are tough when you have a hidden benefit but a visible cost. The President has to explain how it hurts us in a real way and help us understand that that's the price individuals pay for the collective good. And we have to take care of the roadkill in something collectively good. Society is acting through representatives to develop policies to get us the right economic result and not kill people in the process. Every time a baby is born, we take on an obligation for educating them. We take care of our young and old off the back of the people's productive years. It's been a tough sell to the little guy who made shoes in Dexter, ME or worked at the textile mill in New Bedford, MA or the steel mill in Youngstown, OH."

Q16 – Not taking a stand on guns

"I wouldn't impose my values on others. Are the values just my view or the view of the owners of company? If a majority of the shareholders or board wanted to do it? I didn't put my political views in a blind trust I when took job, and I speak as a private citizen, but I have no business speaking for Berkshire, and the company has never made a political contribution. I don't raise money for anyone from any of our suppliers. I don't believe in imposing opinions on the activities of businesses." Charlie: "Obviously you draw a limit on things beneath us, even though they're legal, but we do the best we can, not perfectly because of some supreme knowledge. Certainly, we'll not support a ban on all guns when surrounded by wild turkeys in Omaha."

Q17 – On if they'd issue a dividend if they had over $150 billion in cash and nothing to buy

"We would figure out the most effective way to return capital at that time. It would be a repurchase if the price of our shares was not over intrinsic the value, which is better than a dividend. We try to do whatever makes the most sense but not with idea that we have to do something every day. Our B shareholders voted 47:1 against a dividend, though there's some self-selection of who becomes a shareholder. Our shareholders expect us to do whatever we think makes sense for all shareholders. Our directors own significant stock, and management does too, and all think like owners. We won't always be in a world of low interest rates and high private market prices, so some acquisitions will come about. It's very unlikely we'd pay out a big special dividend." Charlie: "As long as the existing system continues to work as well as it has, why change it? We are capable of changing our minds if the facts change. We've done this several times but must say it's a little hard."

Q18 – What would they do differently if they had only $1 billion to invest? More emerging markets?

"We would find within the US' $30 trillion market that there are opportunities better by some margin than what we can find for $100s of billions but wouldn't rule out emerging markets. I used to buy small Korean stocks for fun in recent years on weekends. With a billion dollars, my first inclination is to comb through the US and maybe a few other places, but I wouldn't get into very small markets. Size, not geography is our problem." Charlie: "I already have more stocks in China than you do as percentage of my assets, so I am with the young lady[questioner]. China is a better hunting ground. It's a younger market but still large." Warren: "The markets work toward efficiency as they age. Like Japan with warrants being priced out of line thirty years ago, but after a while it disappears."

Q19 – Fifty-year view

"Berkshire in 2068? I don't know. We'll be based on certain principles but where that leads, we will find out. I hope and believe will be as shareholder oriented as any large company and look at shareholders as partners and that we'd do with the money what would do with our own and not seek an edge over our shareholders." Charlie: "I want to talk to younger shareholders who inherited our stock. If you sell the stock, you're gonna do worse, so I would advise you to keep the faith. Some of that has already happened in many families." Warren: "I will give his answer next time now that I see all that applause he got."

Q20 - Duracell

"It should be earning more and is well on its way there. Way back when I was on the board of Gillette a while back, I saw the business and have watched it for a while. During the transition related to stock swap, there were a lot of restrictions on things Duracell management could do. The brand and product line are very strong. They can earn what the property is capable of earning and are making changes. In some jurisdictions where they do business, it is expensive to get rid of plants and change headcount, so it will take time. I like the deal now still." Charlie: "I like it better than you do. It's our kind of business."

<u>Q21 – What impact will the increase in the number of T Bonds going to auction have?</u>
"I don't know, and no one does, not even the Fed. Long-term bonds are a terrible investment at current rates. All our money waiting to be placed is in T-Bills (4-month maturity), and the rates on those have gone up lately, so we've made at least $500 million more pretax income on them this year than last year, because of rates. Long term bonds are taxed, so they're a 2.5% net return, and the Fed will do whatever is in its power to not give .5% a year inflation-adjusted, so we suggest sticking with productive assets by far. The bonds have trillions of dollars in the hands of people trying to fuss with which maturity is best to own, and we don't bring anything to that game." Charlie: "It was unfair to reduce savings rates as much as they did, but they had to do it to fight the Great Recession appropriately. I was weird, and in my lifetime, it only happened once but it benefitted al the people in this room with the rise in asset prices including Berkshire stock. We are all a bunch of undeserving people and hope continue to be so." Warren: "1942 war bonds cost $18.75 and paid out to $25 in ten years – that's a 2.9% return compounded. Even an eleven-year-old could understand that's not a good investment. The government knew significant inflation was coming. We had massive Keynesian behavior as the war forced a huge deficit where debt was 120% of GDP, and it was the great Keynesian experiment of all time, and we accidentally backed into it. It set us on a path of growth for all time. But T Bonds haven't been attractive ever since except in early 1980s , when they briefly offered a 30-year compounded 14% return. Every now and then something really strange happens, and the trick is to act." Charlie: "I never had any war bonds since I didn't have any money during the war."

<u>Q22 – Zero-based budgeting</u>
"We do not expect our managers to be in a position with a lot of change. 'Why aren't you always thinking that way?' 3G has been in certain situations where primarily in personnel and other areas where expenses were not delivering value. And they made changes fast. We hope managers take the Geico way and add people only if it is productive. Geico has grown from 8,000 to 35,000 and increased its productivity. I can think of organizations where you can take a whole lot of people out like the tobacco companies of old that were so profitable and added all these people. Our managers do not submit budgets to me, and we have never had a company budget and don't even consolidate monthly figures. There's no reason to spend the extra time. We are the only company in the whole Fortune 500 who does this, but we don't do unnecessary things around Berkshire, and that's why a 3G finds opportunities." Charlie: "We have thirty people at headquarters, and half are internal auditors. This is not normal. We have some losses because of it, but we lose huge disadvantages with meetings after meetings and bureaucracies, and that makes us more attractive to able-bodied company leaders. Our methods have worked so well that we're unlikely to change. I'd say we have subzero-based budgeting at headquarters. Bureaucracy is sort of like a cancer and functions like one. Our headquarters sets the example for our companies."

<u>Q23 – Going direct in the small commercial insurance market</u>
"We'll find out if we can be as successful as Geico in going direct. There's no question that anything that takes cost out of system is going to work over time. We are experimenting and will continue to take costs out of the system and offer the customer an equivalent product or better at a lesser price. We expect some mangers to fail and a few to succeed." Charlie: "If it was easy, it would have happened faster. It wasn't easy in auto, but that's an old industry full of agency costs and wasn't efficient and took State Farm going captive then USAA and Geico and Progressive going direct in a

consumer-friendly and direct way. The same thing will happen in commercial, but it takes an amazingly long time. The race is not to the swift or the battle to the strong."

Q24 – On healthcare

"The healthcare system has a moat against intruders, but that doesn't mean individual companies have moats. If we succeed, we're attacking the industry's moat and not sacrificing care. It's not about any company or component of the sector's moat. We will do our best but hope someone succeeds." Charlie: "When democrats control both houses and the White House, we will get single payer healthcare, and it won't be friendly to PBMs, and I won't miss them."

Q25 – On moats

Charlie: "What Elon Musk said about the conventional moat is truly ridiculous. Elon says a conventional moat is quaint, and that's true of a puddle of water. It's ridiculous. Warren does not intend to build an actual moat even though they're quaint." Warren: "The pace of innovation accelerated in recent years. There are more moats susceptible to innovation than earlier, but folks always attempt to do it. You have to always work to improve and defend your moat. Elon may turn things upside down in some areas, but I don't think he'd want to take us on in candy. There are some pretty good moats around. Being the low-cost producer is a terribly important moat. Technology doesn't always translate to the lowest cost. The technology at Geico has not brought down the cost, but its position among big companies is as a low-cost producer, and that's not bad when selling essential item."

Q26 – Energy capex declining over time

"Energy capital projects expenditures will get lower over time. Tax credits are phasing out and could be extended again. Who knows what the government position will be on incentivizing alternatives? There will be a lot of money spent, and the question is if we can spend it and get reasonable return. Berkshire, the Abel family and the Scott family are the only shareholders in BH Energy and have interest in deploying as much capital as they can at good rates, but the three partners will figure out what makes most sense. They will find good uses for capital." Charlie: "I think there are huge opportunities as far ahead as you can see to deploy capital intelligently in energy, and the chances of a big dividend back to corporate are zero. We hope to find something intelligent to do in the field. In twenty years, we've deployed a lot of capital, so far so good. And billions if not trillions of dollars can be spent on improvements in utility infrastructure."

Q27 – Tax bill impact

"What we saw in the first quarter under these rates is a reasonable guess of the impact of the tax bill, but we have firepower we haven't used, so we do expect our normalized earning power to increase over time, and if it doesn't, we are failing you. Most of our businesses' first quarters are not their strongest quarter, but we expect substantial capital gains coming from marketable securities. Many billions of dollars not shown are being retained by our investees, but one way or another this will show in value." Charlie: "Shareholders won't see another increase in net worth of $65 billion in a single year, but eventually another will come and then another . Be patient. The current situation is not disadvantageous except that we want to get more money out. These businesses will generate far more in earnings for us [Berkshire as a shareholder owning a piece of the businesses' earnings versus just factoring in the dividend payments as return on the investment] than in dividends. We like Apple and the airline stocks better than their dividends."

<u>Q28 – Question on ethics related to real estate commissions</u>

"The purchase of a home is the largest financial transaction for a significant percentage of the population. A lot of people need a lot of attention. A realtor can show a lot of houses before they sell one. Most of our 50,000 agents make a good or decent living, but money managers make a lot more money with less contribution to the welfare of the client. There are no unusual profits to real estate brokers. We are 3% of all transactions in US and earning $200 million a year. The comparative efforts on Wall Street to earn $200 million a year are interesting. Once Roy Tolles wanted to buy a house in San Marino and have lot of kids and so he sent his wife Martha out to make offers on several houses. She offered 50% of list on every house. She finally found one they both really liked and offered 80%, and the worn-down agent was so happy to get a bid like this that he said he would work very hard on the seller and didn't want six more months of Roy bidding 50%. I had Roy buy me a house sight unseen. Real estate brokers earn money respectably and honorably. Every industry has excesses, but we will continue to buy more brokers and will have another purchase to announce soon. We'd lie to get to 10% of the market and $600 million a year in profits, which is not crazy. Charlie: "Commission may get unreasonable on $20 million houses. But do any of us really care if those kind of people, the kind who live in $20 million houses, pay that type of commission? Ordinary commission is pretty well-earned." Warren: "The average price in most operations is $250,000 per house, and the realtor has to show a lot of houses to make a sale and then splits the commission. It's not excessive and doesn't strike us as a place where online is making dent. Charlie has more experience in $20 million houses."

<u>Q29 – Kraft Heinz and healthy food</u>

"We don't want to give info on marketable securities. There are a number of items enjoying growing demand, and some vary by geography. CPG is still a terrific business in terms of ROI, but the population grows slowly. There's some room to experiment, but it's not a business with terrific organic growth and never has been. The returns on tangible net assets are very good at those businesses."

<u>Q30 – Why never bought Microsoft stock?</u>

"In earlier years, the very clear answer is stupidity. But since Bill joined our board and earlier because of our friendship, it would've been a mistake. If something happened, we would be targets of suggestions and accusations of having insider knowledge. We stay away from a few things just totally, because the inference would be drawn that we might've talked to someone about something. I told Ted and Todd a few things are off the list. As for Microsoft, both that and my stupidity have cost us a lot of money." Charlie: "Part of theology is that a late conversion is better than never, and you've greatly improved yourself."

<u>Q31 – Are political divides worse now than ever?</u>

"There have been multiple times in my life where we were more divided than ever, it felt. We've gone through periods where people I knew and admired said that there would never would be another election, because other party was in power. I've heard and seen a lot. Since 1942, there've been 14 Presidents – 7 republicans and 7 democrats. One was assassinated, and one resigned under pressure. We had recessions and panics and wars and crises, and through it all America really moved ahead. Think about this country, in less than three of my lifetimes (263 years), back to when Jefferson was twelve and there was nothing here - you've flown in from all over and flew over all these occupied homes and medical systems and universities. The country really, really works, and we always will have lots of disagreements and will have people saying the world is ending after every election. My future father in law took me aside in 1952. He told me 'you will fail, and the democrats will take over the country, but don't feel responsible. It's not your fault.' This was to absolve me of the guilt that his daughter was starving, and I have been buying stocks and doing fine. But if the republicans are taking over and we starve it, it would be ok. I've seen a lot, but the country has seen six-fold per capita GDP growth. Everyone here has a multiple better standard of living than John D. Rockefeller. This is a remarkable country. I would love to be a baby being born." Charlie: "There's a tendency to think present politicians are much worse than past, but we tend to forget how awful they were in past. I can remember a prominent Senator from Nebraska arguing how mediocre people should have no representation in Senate." Warren: "He succeeded my dad in the House."

Q32 – On General Re

"The reinsurance business is tougher than it was 40-50 years ago. Then it wasn't brutally competitive. Ajit's and Kara [Raiguel]'s focus has changed. They're growth oriented but also have underwriting discipline. We will see P&C reinsurance grow a fair amount, and life reinsurance will grow substantially, particularly internationally. We did the $10 billion bulk deal with AIG in 2017 but didn't do one this year, so our numbers are lower. We will be in the business in future and will have the talent." Charlie: "It's gone from 'any idiot can get in' to 'has gotten way tougher,' and why wouldn't it?"

Q33 – Calculating intrinsic value

Charlie: "We would look for mispriced stock opportunities with less capital. I can't give a formulaic approach to intrinsic value and don't use one. I mix all the factors, and if the gap between value and price isn't attractive, I go onto something else. Costco at 13x earnings was a ridiculously low value because of the brand. I like the cheap real estate and the good competitive position, and even though it traded at 3x book, it was worth more. There was not a formula. If you want one, go back to graduate school, as formulas don't work." Warren: "This is the longest we've gone in a meeting before Charlie says he prefers Costco to Berkshire."

Q34 – On Apple's buybacks

"$100 billion is a lot of money, or I used to think so. Apple has an incredible consumer product which you understand a lot better than I do, and they shouldn't buy in shares at all unless they're selling at less than what they're worth and have the money, and I don't see many attractive acquisitions for them. Deals are very hard to find that would be accretive to them at the $50-200 billion range, and we are delighted to seeing them buy back shares. We own 5% and may get to 6-7% from repurchases. This is an extraordinary product and ecosystem. I love the idea of growing our ownership without laying out a dime. They have to have a very extraordinary product and an enormously wide ecosystem and be extremely sticky and that sort of thing. They won't find acquisitions at a remotely sensitive price that make a lot of sense in terms of what have to pay and what they would get. Do they see a business they know everything about that they may or may not be able to buy at an attractive price? I would love to see Apple go down in price so we can buy more. This gets lost in all the discussions. Tim Cook can do very simple math and complicated math too on whether to buy shares or pay a dividend or buy a company." Charlie: "Generally speaking, when companies go out hell-bent to buy other companies, they're worth less later. Plenty of companies have no better use of their cash than to buy back stock, but I don't approve of every buyback. Some people do it just to keep the share price up, which is insane and immoral, and other than that, it's fine."

Q35 – Success of Visa and Mastercard (small holdings of Berkshire)

"Ted and Todd managed these. They were significant to their portfolios and had no embargo because we also owned Amex, and I should've bought more. But Amex has also done a great job. We own 17% now, up from when we used to own 12%, and have done this without spending a dime, and the company is doing better than ever. The main reasons are international growth and small business penetration." Charlie: "We would've been a lot better at all of our stock picking if could do it in retrospect. There's a tiny cloud on the horizon with payment processors and with WeChat in China. Payments are huge nationwide, and all kinds of smart people are trying to change it." Warren: Charlie and I disagree on Amex refusing to raise its bid to keep the Costco business, and one of us will be right and remind you of it. A lot of people will play the game of gaming the system of switching from one credit card to the other, but there's also another group that thinks Amex is very special. Its loan portfolio has behaved sensationally. For the first half of the year, they had to suspend their stock repurchase program, but they will resume it soon, and we will soon own more. Nobody knows how payments and auto after self-driving cars will come out. We used to buy certain failures like textiles and stamps, and now we just face major threats, so we're moving up in the world."

Q36 – Asked by an eight-year0old girl about capital allocation (clearly her parents wrote the question)

"I'm certainly glad she's not nine-years-old. I am just sitting here thinking which of the 6 panelists we're going to bump next year. I thought I was doing well when I bought City Services at age eleven. We like efficient businesses that earn a terrific return on capital. We can't get more money deployed in capital light businesses at prices that make sense to us. Wouldn't it be wonderful to run railroads without trains and tracks and bridges and tunnels and a few things? We still love a business that takes very little capital and earns high returns, but the second-best choice is still a good choice. Charlie: "I like the aspiration. What you're describing is a business that wants a royalty on the other fellow's sales. It's a good model, and no one could do it in everything. But returns on utilities and the railroad are quite satisfactory, and you're asking us to have perfection if you want all our money in Coke at a good price." Warren: "We haven't forgone any opportunity to buy capital intensive businesses. You definitely have a job in our capital allocation department."

Q37 - Newspapers

"Circulation is down. The problem has been that no one except *The Wall Street Journal* and *The New York Times* and now *The Washington Post* has come up with a digital product that will replace revenue lost as print loses circulation and advertising. The communities in which we operate can be prospering, and all are losing daily and Sunday circulation and street sales and home delivery. We are surprised that the rate of decline in the last five years has not moderated. We bought at great prices, so we not worried for Berkshire, but we would like newspapers to do well because of their importance to society. There are 1,300 newspapers in the US, down from 1,700 recently. It happens everywhere. The big three are valuable digitally but will continue to shrink in the print world. But their digital will be big enough and sustainable enough to have a good business model, but it's difficult to see how the print product survives over time. McClatchy's ad revenue is down 17%, and it's happening to everyone. The impact on society is enormous." Charlie: "The decline has been faster than we thought, so it was not our finest bit of economic calculation, and we miscalculated because we both love newspapers, and local papers tended to be owned by good people who helped control politicians, and we will miss them." Warren: "For news and sports scores and stock quotes and ads, print newspapers are no longer the primary source, and the business has changed in a very material way."

<u>Q38 - TTI</u>

"TTI doubled its pretax earnings Paul Andrews has done an absolutely sensational job. He's a wonderful man and manager and has quadrupled the business. They distributed these little electronic components. It's a billion dollar business off an item that's less than a nickel. This is a worldwide operation built by one man who left General Dynamics 40-50 years ago and built the business step by step. Electronic components have absolutely taken off in last year. They bought a business in Korea recently.   The book to build ratio has improved dramatically, so something is going on as no one buys these products just to store in the basement. TTI has a great relationship with its suppliers and customers, because they carry more inventory, and it's a great credit to Paul, and it's a godsend to us that he increased his facilities. There are competitors, but I think Paul is doing better job than they are by a considerable margin. There are times when business will go down because of cycles. Charlie: "The business is wonderful, because it's so difficult to do that others don't try. In Omaha there was man who gathered up and rendered dead horses. He was so successful that he showed up at the Omaha Club drinking at 11 am. Very few want to distribute zillions of products at a nickel each. Imagine keeping track of close to a million items all over the world. The horses went away, but these components aren't going. If it can't stand a little mismanagement, then it's no business."

<u>Q39 – On selling Phillips 66 shares</u>

"We sold at $93, and it's $115 now. Guess that was my City Services preferred of 2018. We hit 9.9% ownership there. Overwhelmingly We will stop below 10% because of the regulatory requirements of being a larger owner." Charlie: "We like the subsidiary we traded the stock for. It isn't like the stock went away for nothing."

<u>Q40 - Cryptocurrency</u>

"Nonproductive assets remain that way. Gold at the time of Christ to now has a compound rate of a couple tenths of percent. These assets won't deliver anything other than supposed scarcity, but so what, what does it produce itself? All this is is counting on someone else later on trying to buy a nonproductive asset because they can sell it for a higher price. Think of raw land. The Louisiana Purchas was $15 million for 800 square miles, so we paid 3 cents an acre. That's a pretty good purchase of what was then a nonproductive property. We can buy stamps like Bill Gross, but that's dependent on someone else buying from you. In the end, you make money on productive assets. You go based on what an asset will produce versus hoping tomorrow morning the price will be higher, and you need more people coming than going.   And it can feed on itself for a while, but cryptocurrencies will come to bad endings. There are a lot of charlatans who are just trying to create things. People of less than stellar character see an opportunity to get rich, because their neighbor is, and neither understands it." Charlie: "I like cryptocurrencies a lot less than you do. To me, it's just dementia. It's like somebody else is trading turds and you decide you can't be left out." Warren: "To the extent we are being broadcast around the world, I hope that your comment doesn't translate."

<u>Q41 – Tax bill benefits being passed to end customers</u>

"People take what they want to be the answer and attach to the economist who tells them what they want to hear. The benefits go to the customer in the case of public utilities, as the utilities are not entitled to excess returns due to tax rate changes. Is the remainder of the benefit competed away or not? Sometimes. One thing you know is the tax rate change was good for shareholders generally, and that's what Congress passed, and the intent had to be that if they cut taxes, shareholders would get a large portion of it. Some agree politically, and some don't, but it's human nature if you're getting something good to say it's good for all. Economics can't measure things off single variables (always ask the guy 'and then what'). Some tax benefits will come to shareholders, and some will be competed away." Charlie: "I have nothing to add."

Q42 – Benefits of being multicultural

"It's terrific. I never was good at learning languages. It is a great advantage over time to understand the cultures of other societies. The market system, modified as it may be between here and China, really does have a working invisible hand to improve the lot of future generations. Prosperity through one's own efforts and also through interactions the with rest of world are great. Look at the Marshall Plan compared to the post-World War I disaster. People will be living better in the future and can't be stopped absent weapons of mass destruction." Charlie: "It wouldn't do good to be fluent in both Chinese and English if you're a proctologist. If you're going to use it, you have to work in some interface between the two countries and can raise money one place and invest it in the other like Li Lu or be some kind of importer or trade specialist or something." Warren: "Generally speaking, when being multicultural, you can be multidisciplinary, but you usually make more money in a single discipline unlike me and Charlie, so maybe be a proctologist."

Q43 – On why some of Berkshire's subsidiaries have high fee options for employee retirement plans

"Our managers run their businesses and know what we think in terms of index funds. We overwhelmingly let our managers make those decisions. A high percentage of people will have an index fund option. The only thing is we ask to place a limit on the percentage they can put in Berkshire stock. We don't want jobs tied to Berkshire to also have retirement and savings invested in Berkshire. We don't want to be in that position, but have not insisted, just more of a suggestion when asked by our managers. If employees want different options, they should make their views known to the managers. We have a wide variety of managers and are not going to start running their lives from Omaha." Charlie: "I hope managers will do a little better at encouraging better choices. We wouldn't object to a little different viewpoint. Some don't listen to us."

Q44 - Culture

"Our culture is strong and reinforced by shareholders. We look at them differently than a good many do. Some companies wish they didn't have shareholders. We are happy to have them and like individuals and not just institutional investors. We want shareholders who're partners. It also goes to directors. I've been on nineteen boards and never seen one like ours. They didn't get special deals and own lots of shares themselves. They're owner-oriented, Berkshire-conscious and business savvy. They run businesses well for themselves and their partners. Our managers are owners too. Some are even second, third or fourth generation. They're not perfect – they have very different personalities but a strong, positive culture. We will continue because, people opt in and get passed along. What we talk about is what do. We aren't like those companies whose boards vote themselves huge options when saying they're a wonderful partnership (Elon Musk). Our culture grows stronger all the time. We try to keep reinforcing and not diluting it." Charlie: "Every time I come to these and sit in managers' luncheon, I feel more strongly that culture and values will go on for a long time after all the present managers are gone. It will work well enough that it will last, and it's not that damned easy to duplicate. Think of how little the Berkshire model has been recreated. It will last a long time, because it deserves to, but it will go on without the returns of past [because they're playing with larger dollars now]."

Q45 – Cash needs for insurance

"We do not correlate or measure float and decide how much to leave in cash and fixed income. Float keeps growing, and cash has grown because competition for acquisitions has been much stronger (cheap debt and variety of factors). We are not tying cash to float. There's no way float can shrink in a short period. Structurally it can't. Float will grow for a while. It's amazing how much float we have all from that little building Jack Greenwald [of National Indemnity] picked that was near the tennis courts. Our cash has gone up a lot recently, $400 million a week absent float, which is comfortable, and we want to get it so more is going out in productive assets."

Q46 – Looking back at a Buffett Fortune article in 1999 thinking profits wouldn't be >6% of GDP but since 2008 profits have gone up to 8-10% of GDP

"The four largest companies by market value don't need any net tangible assets. They're not like AT&T, GM or ExxonMobil requiring lots of capital to produce earnings. American industry is much more profitable in aggregate over the last twenty years. Earnings on tangible net worth growth is due to fact that we have become an asset-light economy. We will earn even more with lower taxes. Carnegie built a steel mill and paid it off and then built another and so on. All enormously were capital intensive, and now money is in asset light and negative asset business. IBM has a minus tangible net worth – this is not the world we lived in thirty years ago, and I didn't see it coming. It hasn't changed the profitability of older, capital intensive industries though." Charlie: "You didn't invest wrong but may've predicted wrong. You weren't very right on that one." Warren: "I was being wrong for the right reasons."

Q47 – on AIG bulk buy

" AIG wanted to give Berkshire all the losses incurred in its domestic business before 12/31/15, and AIG agreed to pay the first $25 billion then 80% of the next $25 billion. If we are right in how much we will be paying and when, we will come out ahead. We've done 10-12 huge deals like this historically and so far have done some well and others a little high. There's been $15 and a fraction billion paid out by AIG so far, and we still feel ok about it. We'll be wrong one way or another, but everyone is when estimated losses won't be settled for 20-30 years. Sorry to get into the technical stuff."

Q48 – Ability to forecast success of one product versus another

"Amex went into the credit card business because of worries about what would happen to traveler's checks. When they entered competition with Diners Club and Carte Blanche, they came in at a higher price with a centurion on the card. They had more value and got better representation. When someone would use the card, he looks like he's JP Morgan versus the guy paycheck to paycheck. Ralph Schneider of Diners Club got there first but didn't do much else. All kinds of colas came out over the years, but Coke really is the real thing. I wouldn't take RC at half the price of Coke. A 6.5-ounce Coke sold for a nickel in 1900 and now is not much more, whereas in 1942 a newspaper was 3 cents. So, the enjoyment has gone dramatically way down on an inflation-adjusted level. Coke is a real bargain product. Just like with See's – if a boy gave a box to a girl, and she kissed him, you lose all price sensitivity at that point. We like products where people feel like kissing you instead of slapping you. We are betting on the ecosystem of Apple products led by the iPhone but see characteristics that make me think this is extraordinary. After the Amex scandal in 1963, we worried about survival, but no one quit using the product." Charlie: "I have nothing to add except that if offered chance to go into Coke right after it was invented, we would've turned it down. It would've looked silly to us unless we drank it. We want to see how a consumer product behaves under lots of circumstances." Warren: "In Graham's *Common Stocks and Uncommon Profits*, reading about the scuttlebutt method you can learn a lot just by using some shoe leather. These are called channel checks now. You can really get a feel for some products. It's a good technique, and Ted and Todd do a lot of it and have others help them. Charlie does it with Costco. The product has enormous appeal to the constituency. They surprise and delight their customers, and there's nothing like that in business. It's a lot of the way home if you delight your customers."

Q49 – Hostile takeover effort for Unilever impacting why he stepped down from Kraft Heinz board

"We will not do hostile takeovers. The Fortune 500 is not managed by people like this. It's not evil to conduct a hostile offer. We don't want to get into that, because want to be liked by managements as we're counting on them to run it if we buy them. We seldom take a position opposite management on proxy issues. We are very unlikely to support a contest and have voted against a couple propositions managements have made like with Coke when we withheld our vote to express our opinion on stock options. It's not evil to have a difference of opinion. The stockholders still own the company." Charlie: "I don't envy people in these uproars all the time especially when already rich. It's insane." Warren: "The 3G folks are great managers and partners. I had decided to be on no more boards, but they asked me to go on for a while and did. It was 7.5 days a year with the quarterly meetings plus an extra one. It was fine, but I don't want to spend that time when I can spend five minutes calling up people I trusts and admire to get a recap." Charlie: "Costco and Kansas City Power and Light are the only boards I've been on when I didn't own the company. I don't understand those people who go around traveling and that." Warren: "They have little influence and have to devote lots of time, and sometimes the companies take up time to justify international travel. During all this show-and-tell, I find my mind drifting."

Q50 – Looking abroad for more acquisitions

"We see some outside the US, and thank goodness we saw Iscar in Israel when Eitan wrote us the letter, but we're still not as far along as we would like around the world in terms of expansion. In the US, all the large deals think about Berkshire, but elsewhere we are not as embedded. They know about us and know we have a lot of money, but the results haven't been that great. I hope tomorrow to get a call from you name it wherever it may be and get an opportunity to do it. Our experience in Israel has been terrific." Charlie: "These global acquisition markets are driven by LBOs and whatever they call it 'strategic,' and I usually translate that into barnyard language – it's so much craziness that of course it's hard to do it. Even the LBO firms are getting nosebleeds from the valuations. We've never made 'strategic' plan unless Warren has hidden it from me."

Q51 – Business schools

"I went to three business schools and at each found a teacher or two that I got a lot out of. I think that the priesthood of 30-40 years ago for efficient market theory strayed far from the reality of investing. We'd rather have a person who is bright but had chapter 8 of Intelligent Investor in his bones, we would take that person. It's not complicated but is disciplined and does not require a high IQ. The fundamentals are important, and so is understanding accounting and talking to and thinking like a consumer, but being a good investor doesn't require advanced learning. I didn't want to go to college. Would I have done better or worse if I'd just quit and read books? If you run into a few great teachers, and they change way you think, you are lucky. Like Charlie is to me as a great teacher. You can find them in academia and ordinary life. The teacher gives you insights and makes better person, like Charlie." Charlie: "Ben Graham was unconventional, and Warren found out you can make a lot of money by sitting on your ass. He knew the approach wouldn't work for all times and conditions, and we learned that. Ben outlived the game he played personally. Lots of luck finding those types of deals where you buy something for a third of working capital. Warren had to learn a different game. If you're going to live long time, what you formerly knew is never enough. It's like the metaphor I always use with the one-legged man in ass kicking contest." Warren: "Can we please have suggestions for another metaphor sent to me? Graham was not scalable. Graham had $12 million he was working with and was tiny and not scalable. He didn't care, because he wasn't interested in making a lot of money for himself. The utility of chapter 8 looking at stocks as business and chapter 20 about the margin of safety are of enormous value and not complicated." Charlie: "Teachers teach the wrong things, like my old eye doctor who does obsolete operations. He said, 'but it's such a wonderful operation to teach.' They get these formulas in academia and create these fine teaching experiences. What a real feeling of worthwhile activity! It's all balderdash." Warren: "Whenever you hear something described as 'elegant,' watch out."

<u>Q52 – Women in the workforce</u>

"I've got two sisters as smart as I am but with better personalities, and they didn't remotely have the same opportunities. They could be nurses or teachers or retail clerks or stenographers, which was to my advantage. We had way better teachers at Webber and at Dundy for Charlie. There was a huge talent pool that funneled into a few opportunities. The teachers were better than we deserved. I've named only 6-7 CEOs in the last few years, and half have been women. I feel good about the decisions I've made for CEOs. I prefer they all live forever, and one almost did, and the lesson to learn is if you retire prematurely then that can happen (Rose Blumkin retired at 103 and died at 104). I am bullish on the country. More selection by merit than by gender or race or inheritance will be good. All businesses passed on to the eldest son will create a lot less progress." Charlie: "The past is a very strange country, and people behaved quite differently there. I've never seen overt discrimination anywhere within Berkshire. We will keep improving."

<u>Q53 – Insurance cash restrictions</u>

"If share repurchases are attractive, we would do it in a very big way and have all kinds of ways to arrange it in either an acquisition or repurchase. A share repurchase would be hard based on way our stock trades. But bottom line is we could have a lot more cash if we needed it. We could work out how to get any deal done." Charlie: "Don't rule out anything based on statutory distribution limits. We can get special permission too."

<u>Q54 – Machine learning</u>

Charlie: "The only intelligence I have is being provided by something not a machine and which won't learn machine intelligence. I am too old to learn computer science. Machine intelligence has worked. It can beat the best human player at Go. But it is more hype than achievement." Warren: "The world won't change that much from machine intelligence. People are always trying to get the best that's worth buying. This view is rejected in academia – they want to find some formula about machine learning taking over." Charlie: "Physics envy. It's a false precision. Improve your intelligence." Buffett: "I don't think machines bring much to the table regarding capital allocation or investing." Charlie: "You are missing a lot of very remunerative fee-earning twaddle."

Q55 – Investing abroad

"American investors are missing China. It's a long way away, it's different, it's complicated, it looks too hard sitting in Omaha to outsmart the Chinese market, we have to get billions into things to move any kind of needle. It's tougher in markets we are unfamiliar in working in. In much of Europe we have to report when we own less than 3%, and that's tough when we get followers which is undeserved. We have problems by nature of size. It'd be a lot easier if we were a smaller fund. In Petrochina we could get large position, because the Chinese government owned 90% of it, and we only bought 1.4%" Charlie: "Warren did so poorly the first time in China – he put in $200,000 got $2 billion out, which was not encouraging enough."

Q56 – Tech investing

"Tech or not, we base our decisions on the durability of competitive advantage and if we think we are better at assessing the probability of improving the durability. Amazon doing what it did I thought would be something close to miracle, and I tend not to bet when I think something takes a miracle. I would've been far better if I had insights. Bill [Gates] told me early on to switch from Altavista to Google, but I wondered who would then skip past Google. We saw at Geico that we were paying Google a lot of money for services costing Google nothing. We made a mistake. We went into Apple, because of the intelligence of the capital deployed and the value of the ecosystem. It didn't require me taking apart the iPhone and figuring out the components to see what Apple had. It was more the nature of consumer behavior. We miss a lot of things we don't understand well enough. But there's no penalty for not swinging at something as long as you swing at something. Stay in your circle of competence where you might have an edge because of experience or reason." Charlie: "If one of us is stupid in some area, so is the other. It's a wonderful system. We're not ideally located to be high tech wizards. How many people our age have quickly mastered high tech? I've been to the Google headquarters. It looks like a kindergarten, a very rich kindergarten. All of the Google characters came and talked to us when going public. The mystery was 'what competition that would come along?' Would it be four or five players slugging it out or one dominant player? The airlines are better now than they used to be, but it used to be suicide. Competitive factors are extraordinary with four or five carriers at 85% capacity versus eight carriers at 70% capacity. Amazon was a miracle doing Amazon Web Services and changing the world of retail at the same time and without much capital and at that speed. We underestimated Jeff. We had a very high opinion and still underestimated him." Charlie: "Some of our age and stupidity is ameliorated by Ted and Todd. We are lucky to have them, as a lot of the ignorance of the older generation needs removal ."

Q57 – Do you have a family office?

"We already have one - sitting right here. We are the last guys in the world to have one. It's not something that fits the Buffett or Munger families."

Q58 – Compensation arrangements for different managers

"I really don't want to answer it. It's a good and tough question. Some managers are in easier businesses. Some are influenced by pay arrangements elsewhere and wouldn't be human if they weren't. There are different degrees of capital intensity and profitability and how much a company can scale up for size (incentive to grow), when really they bring the same amount of intensity to it no matter how big the company is. It's a tough question. Consultants will recommend things that cause them to have CEOs recommend them to a lot of companies. You're working against human nature. We've kept a very high percentage of managers who we wanted to keep. People like to make their own decisions and like recognition, and comp is part of that but not the whole thing. There are no precise formulas." Charlie: "There's an advantage to keeping individual deals private. Warren makes them all personally and has every formula in the book and keeps them all private and discloses only whatever he has to disclose."

Charlie pretends to doze off during a speech from an environmentalist during the proxy vote.