***Berkshire Hathaway Annual Meeting***
**May 4, 2013**

(Notes taken by Professor **David Kass**, Department of Finance, Robert H. Smith School of Business, University of Maryland)

A one hour humorous film was shown in which the highlight was Warren Buffett on the telephone asking his agent to get him the role of playing alongside Arnold Schwarzenegger in the upcoming film, Terminator 5. Arnold rejects Warren and chooses Charlie Munger for that role.

**Warren Buffett** (age 82) and **Charlie Munger** (age 89) then walk on the stage and sit down. The format for asking questions was similar to the last four annual meetings. One-third of the questions were selected by three business journalists: **Andrew Ross Sorkin** (*The New York Times* and *CNBC*), **Becky Quick** (*CNBC*) and **Carol Loomis** (*Fortune*). Shareholders had e-mailed over 2,000 questions to the journalists, who then selected 20 questions relating to Berkshire and its operations. The journalists who were seated on the stage, alternated with insurance industry analyst **Cliff Gallant** (KBW), analyst **Jonathan Brandt** (Ruane, Cunniff), and hedge fund manager **Doug Kass** (Seabreeze Partners), and with shareholders in the audience in the asking of questions.

Approximately 36,000 – 40,000 were in attendance, similar to the last three years' turnout. (This is compared to previous records of 35,000 in 2009, 31,000 in 2008, 27,000 in 2007, and 24,000 in 2006.)

Buffett initially commented on first quarter earnings. In general, all of Berkshire's companies did well. Berkshire earned $3.8 billion in the quarter. The insurance earnings were helped by strength in the dollar. Berkshire settled some disagreements with Swiss Re in which Berkshire showed a gain of $255 million from closing part of this contract and Swiss Re claimed a gain of $100 million as well. It's amazing what accounting can do. We should get into an argument with Swiss Re every quarter. Geico did very well. Each new policy is worth $1,500. So if Geico gains 1 million new policies (per year), it adds $1.5 billion in intrinsic value that is not shown in its accounts. The railroad (BNSF) is doing very well. For the first quarter, car loadings were up 3.8% as compared to only 0.4% for the industry.

Berkshire is now the fifth most valuable company in the world. The top five companies by market capitalization are Apple, ExxonMobil, Microsoft, Google, and Berkshire Hathaway.

Questions were asked in the following order:

**(1) Loomis: Warren, you measure Berkshire's performance by growth in book value per share. It has recently grown at less than the S&P 500 Index. Do you expect Berkshire to grow as fast as the S&P 500?**

**Buffett**: If the stock market continues to go up, it will be the first five year period that book value will fall short of S&P performance. We will do well in down years relative to the S&P 500. Book value is a good proxy for intrinsic value. There is a significant gap between book value and intrinsic value. This is why we are willing to buy back our shares at 1.2 x book value.

**Munger**: Berkshire will do well over time. Do not pay attention to 3 – 5 year time periods.

**(2) Brandt: Does Iscar have advantages over Sandvik?**

**Buffett**: Sandvik is bigger, but Iscar is better. They have brains and passion for the business. Iscar is one of the greatest companies in the world.

**(3) Audience**: **What can go wrong after you are gone?**

**Buffett**: The key is preserving the culture and having a successor as CEO with passion and brains. The Board of Directors is in agreement who that is.

**Munger**: To the Mungers who are here: Do not be stupid as to sell these shares.

**Buffett**: That goes for the Buffetts too.

**(4) Quick: After the Heinz deal there was a report that showed you got the better end of the deal with the preferred stock getting the returns and the common equity being dead money if the market is weak. Is that correct?**

**Buffett:** This is not true. Charlie and I paid a little more than otherwise because Jorge Paulo and his team are extraordinary managers. Their $4.1 billion will do better over time than our $12 billion because they have more leverage. In five years they will receive a higher rate of return, but since we put in more money, we will get a higher absolute return.

**(5) Gallant: Ajit's strategy seems to be growing the business with the AON underwriting agreement and the recent hiring of four AIG executives. Is market share the goal? Are you getting closer to earning only market returns?**

**Buffett:** The goal is to gain market share. There were two major actions. First, we will participate in 7.5% in all business originally in Lloyds market (UK market). Second, the four AIG people who joined us will write commercial insurance in the U.S. and internationally. These four people reached out to us. Commercial insurance business for us in the future will be in the billions of dollars. We have the capital that others do not have.

**(6) Audience: Why doesn't Geico have plans to adopt Progressive's use of Snapshot (usage based driving technology)?**

**Buffett:** Geico's ability to sell insurance at a price that is considerably lower and earn an underwriting profit indicates that our selection process is working well.

**(7) Sorkin: What are the implications for Businesswire of Twitter and SEC changes?**

**Buffett:** The key to disclosure is accuracy and simultaneity. Businesswire does an outstanding job. Berkshire would like to put out information after the close of the market. Anything important will come out on Businesswire.

**(8) Doug Kass: You are now a buyer of pricier and mature businesses. All are done at prices well above prior acquisitions. Many might be great additions, but are they at lower returns? Does Berkshire now resemble an index fund that is more appropriate for widows and orphans?**

**Buffett:** Since we are larger we will not do as well. We are not paying higher prices. In Geico we paid 20x earnings and a high multiple of book value. We have historically paid up for good businesses.

**Munger**: If you look at the history of big companies in the world, the record is not good. Standard Oil, however, did well after getting big. We think we are doing well because we have a better system than most people.

**Buffett**: We own 8 businesses that would be on the Fortune 500 list if they were separate. Doug you haven't convinced me to sell the shares yet, but keep working on it.

**(9) Audience: Will the U.S. Dollar continue as the reserve currency?**

**Buffett:** It will be the reserve currency for a long time.

**Munger**: It will be the reserve currency in 20 years, but not necessarily forever.

**(10) Loomis: You said in 1999 in Fortune Magazine that corporate profits will not exceed 6% of GDP. Now they are 10% of GDP. Can they be sustained?**

**Buffett:** I believe corporate profits will trend down as a percentage of GDP, but GDP will be growing. Corporate income taxes are half of what they were 40 years ago as a percentage of GDP, but profits are two times. I would take with a grain of salt any complaints about U.S. corporate tax rates. U.S. business has done well. But inequality has widened.

**Munger:** The corporate tax rate is a problem if the U.S. rate is much higher than the rates in competing countries.

**(11) Brandt: How do you weigh the complexity of adding new businesses with the complexity of managing them?**

**Buffett:** My successor will organize them differently than me. The CEOs will continue to run everything in the business except capital allocation. The smaller companies might be rearranged. Insurance and the big businesses will make the real money. We are trying to acquire businesses with $75 million pretax profit. The best acquisitions are bolt-ons. We did $2.5 billion last year.

**(12) Audience: Is the Federal Reserve buying too much (QE3 $85 billion/month of U.S. Treasury bonds and mortgage backed securities)? How will the Federal Reserve exit?**

**Buffett:** It is a lot easier to buy than to sell. The Federal Reserve has $3.4 trillion of securities on it balance sheet. I have a lot of faith in Bernanke. He is running a risk he knows and understands. This has the potential to be inflationary, but the Federal Reserve might hope it was more inflationary. The easiest way to run up nominal GDP is to inflate. When the market gets any kind of signal that buying ends or selling starts, is that the shot heard around the world? Anyone who owns securities will start reevaluating their hand and people evaluate very quickly in markets.

**(13) Quick: What impact is the Federal Reserve's zero interest rate policy having on Berkshire's businesses?**

**Buffett:** It has helped. Interest rates are to asset prices what gravity is to the apple. When interest rates are low there is little gravitational pull on asset prices. Interest rates power everything in the economic universe. Since we borrowed very cheaply on the Heinz transaction, we were willing to pay more. When the 30 year Treasury is down to 2.8%, houses are more attractive. Fed policy is smart, but unwinding it will be far more difficult than buying. This is like watching a good movie, because I do not know how it will end. We have $40 billion in short term Treasuries that earn nothing. If short term rates were at 5%, we would earn a couple of billion pretax. But it would hurt our other businesses. We have benefitted significantly by what the Fed has done in the last few years.

**(14) Gallant: Why not buy a commercial insurance company?**

**Buffett:** There aren't too many commercial insurers we would want to acquire. If you look at the big ones, some we wouldn't want and for the good ones we would have to pay more than we could build it for. It is better to build than buy if you can find the right people. We have a terrific manger in Ajit. We will have a significant operation in a short period of time.

**(15) Audience: What is the significance of Bitcoin (unregulated currencies)?**

**Munger:** I have no confidence whatsoever in bitcoin becoming a universal currency.

**Buffett:** Of our $49 billion, we haven't moved any into bitcoin. The truth is I do not know anything about it. Normally that doesn't always stop me from saying something, but it will in this case.

**(16) Sorkin: Is Pampered Chef a multi-level marketer like Herbalife?**

**Buffett:** I've never looked at Herbalife. The key is whether direct marketing is selling to distributors or selling to end users. Pampered is based on selling to end users. Pampered gets paid on results.

**Munger:** There is likely to be more flimflam selling magic potions than selling pots and pans.

**Buffett:** At our age we are in the market for magic potions, if anyone has any.

**(17) Doug Kass: Much of your returns from your investments have been as a result of your reputation. What about your successor?**

**Buffett:** My successor will have more capital than me when markets are in distress. At those times few people have capital and even fewer have the willingness to commit. It is unusual to have capital at times of turbulence, when the ability to say yes quickly with large sums sets you apart. I would not worry about that successor being willing to deploy capital and being called upon. Berkshire is the 800 number when there are panics in markets. It happened a couple of times in 2008 (Goldman Sachs, and General Electric) and once in 2011 (Bank of America). This is not our main business. But if the Dow falls 1,000 points for a few days, they will call Berkshire. Our reputation will become even more solidified, when Berkshire does it when I am not around. It becomes even more the Berkshire brand.

**Munger:** In the early days, Warren had huge success because competition was small. Then competition became more intense. Now we are in the niche of offering capital to big businesses who do not want to be controlled by somebody else. And this is less competitive. The other people are not getting calls.

**Buffett:** They do not have the money and are not willing to act immediately. This area is very much our own. These qualities will remain with Berkshire after I am gone.

**(18) Audience: How do you get people to sell businesses to you?**

**Buffett:** See's had been put up for sale. I had not heard about it until another party who negotiated to buy the company did not go through with the purchase. Charlie persuaded me to buy it, not See's persuading me.

**Munger:** We did not persuade anyone to sell.

**Buffett:** We bought Berkshire in the open market. It wasn't the most attractive business. It was a textile company, which had losses over the prior ten years. We bought stock, two large blocks from Otis Stanton and a relative of Malcolm Chace. I never met Stanton. We were not trying to convince anyone to sell their stock. With Wesco, we talked Betty Peters about not doing a deal that we thought was dumb. She remains a shareholder to this day, 40 years later.

**(19) Loomis: What is Berkshire's long term sustainable advantage?**

**Munger:** We have tried to stay sane when others like to go crazy. This is a competitive advantage. Second, we have used the golden rule, we treat subsidiaries how we would want to be treated if we were subsidiaries. People come to us who do not want to go elsewhere. That is a long term advantage. We have tried to be a good partner and that is an advantage.

**Buffett:** A person a few years ago came to me and he was in his 60's. He didn't want to retire. He wanted to sell his business but not see it destroyed. If he sold it to a competitor, his employees would get fired. Private equity would load it up with debt and then sell it later. So when he came to me he said, it isn't that you are so attractive, but you are the last man standing. People who stayed with me will sleep well at night knowing they are okay. Our competitive advantage is that we do not have many competitors. Also, shareholders are partners. That is unusual.

**(20) Brandt: With coal fired power plants being in decline, can railroads (BNSF) be redeployed to carry crude oil, especially with pipelines coming?**

**Buffett:** If there was no coal moving, there wouldn't be a lot of use for some of the tracks. What you are talking about will likely be very gradual. Year by year fluctuations may depend on the price of gas. With respect to oil, there will be a lot of rail usage for a long time. Oil moves faster by rail than by pipeline.

**Matt Rose (BNSF):** We expect the coal franchise to stay where it is. We are planning for an expansion in moving crude oil by rail over the next few years.

**(21) Audience: Question about Berkshire's Harley Davidson 15% preferred stock.**

**Buffett:** We would like to stop answering the mail and let them keep paying 15%. We had a few private transactions when the market was frozen. Those deals are coming due. That was a special time, and that is a depleting asset left over from 5 years ago. We won't see anything like that soon, but we will see similar things at some time in the future. There will be excesses in the future and they have consequences. We did not think that Harley Davidson would go broke. Any company that gets customers to tattoo their logo on their chest can't be all bad.

**(22) Quick: Do you share thoughts on stocks with Todd Combs and Ted Weschler?**

**Buffett:** I gave them each an additional $1 billion on March 31. They do not check with me. I do not find out what they purchased until one month later. There are one or two things they are restricted on. For instance, we cannot buy more American Express. They buy things I wouldn't buy, I buy things they wouldn't buy. They can put it all in one stock or in 50 stocks if they want.

**(23) Gallant: Geico is doing well, but Progressive is giving 30% rate cuts using Snapshot. Have you considered using this as an underwriting tool?**

**Buffett:** I don't think Progressive's selection method is better than ours. We are retaining a hugely disproportionate number of new policyholders vs. the market, and our rates and underwriting results are attractive.

**Munger:** Obviously we are not going to copy every oddball thing that every competitor is doing.

**Buffett:** If I were starting in the auto insurance business, I would attempt to copy Geico, but it would not work. You cannot give Tony Nicely enough credit. The entire industry will get 1.5 million new policies this year, and we will get 2/3 of that (1 million). We will do it profitably and save people money.

(**24) Audience: It is said that you organize yourself by listing your top 25 goals and then pick only the top 5 and avoid the bottom 20.**

**Buffett:** I'm curious as to how you came up with that. It sounds good, and it sounds a lot more disciplined than I am. I don't remember ever making a list in my life. Maybe I'll start.

**Munger:** When we started we didn't know modern psychological evidence that you shouldn't make decisions when tired and how tiring it was to make decisions. And how good caffeine and sugar are to decision-making. Warren and I are totally habitual, so we waste no energy making little decisions. And we ingest Coke and chocolate (See's). I can't remember an important decision Warren has made when tired. He's never tired.

**(25) Sorkin: Does Berkshire's purchase of the Omaha World-Herald make sense economically?**

**Buffett:** We will get a decent return. They were bought as an S corporation or partnership. They have a structural advantage because we get to write off intangibles, and it affects our after-tax return. With declining earnings, after tax returns will be at least 10%. It doesn't move the needle at Berkshire. There is about $100 million of pretax earnings in Berkshire's newspapers. Some get favorable tax treatment. It is real money but doesn't move the needle here. We wouldn't have done it in any other business. We are buying papers at low prices vs. current earnings since earnings will go down.

**(26) Doug Kass: In a previous question you mentioned that when you are gone, Berkshire would likely move towards more centralized management. You have said that Singleton at Teledyne is a manager everyone should study. He was 100% rational. Prior to his death, he broke up Teledyne into 3 companies. According to Lee Cooperman, Singleton did this because it was getting hard to manage for one CEO. What would you say about Berkshire's greater complexity and size, and what is the advisability of creating separately traded companies along business lines?**

**Buffett:** Berkshire is easy to run. It is easier to manage. Berkshire will have only slightly more centralization in the future. Charlie knew Henry Singleton. Breaking Berkshire up into several companies would lead to poorer results.

**Munger:** Henry Singleton was a genius. I knew him. He started as a conglomerate and grew the business by acquisition to keep the daisy chain going, and on the way down he bought in the stock aggressively. He managed on a much more centralized basis. He wanted to sell it to us. He wanted Berkshire stock. We said no.

**Buffett:** He played the public markets very well. We are not interested in that. He made a fortune for shareholders who stayed with him. But he looked at shareholders as people to take advantage of. He issued stock for 50 acquisitions. He promoted his stock. We didn't want to play that game. It worked well if you didn't care how it ended up. Berkshire was going to be his third stage: first issue overpriced stock, buy back cheap, and then get our stock.

**Munger:** I like our system better. We are more avuncular than Teledyne was.

**(27) Audience: What should U.S. companies focus on to maintain their competitiveness?**

**Buffett:** Health care. The U.S. spends 17.5% of GDP on health care, while other nations are at 9 ½ - 11%. This is like a raw material that costs you more. GM used to have a $1500 per car disadvantage in health/pension costs. Health care costs are beyond the control of any one company. We have done well, but I think health care cost is a disadvantage.

**Munger:** It doesn't do our competitiveness any good to have grossly swollen financial and derivatives markets. I think we get a crazy outcome in terms of the effect on our country when Caltech and MIT graduates go into finance.

**(28) Loomis: What is the cost of Berkshire (300,000 employees) complying with the Affordable Care Act?**

**Buffett:** I don't know the answer to that. All of our units have health care benefits. Health care costs are huge. I see costs rising 10-12%. The same is happening to our competitors. We will not be controlling this from headquarters. The individual units will be making these decisions.

**(29) Brandt: Question about subsidies for solar power at electric utilities and whether regulated utilities are immune.**

**Munger:** I don't think anyone really knows how it will play out. I confidently predict there will be more solar power in deserts than on rooftops in cloudy places. Our investments are all in deserts. We get very favorable terms and incentives. We will do fine with solar (MidAmerican).

**Greg Abel (MidAmerican):** Costs are coming down. When you put in total costs, utilities are still competitive pricing. You will see restructuring of tariffs, but there will be a lot of protection to the utility.

**(30) Audience: Bill Gross (Pimco) said investors of his generation benefitted from timing (where and when they were born). Did that matter at Berkshire?**

**Buffett:** Being born in the USA was a huge advantage and being male gave me more opportunities. Timing could have been a little better. Dad was a securities salesman, I was conceived in November 1929. There was no one to call on after the crash. Dad was bored. There was a decade of terrible business and people were turned off to stocks. Similar to the past decade. I envy the baby being born today in the USA, and on a probability adjusted basis that is the luckiest baby ever born. Better odds than existed when I was born. There will be opportunities to do well in investments. The person who has passion for investing, coming of age 20 years from now, will do very well, and live far better. We all live far better than John D. Rockefeller did.

**Munger:** Competition was weak in the early days. It is not weak now. Sure we got advantages from timing, but it doesn't mean there is nothing to be done ahead.

**(31) Audience: What advice do you have for a 30 year old?**

**Munger:** Stay rational and work hard. The old fashioned virtues.

**Buffett:** But find what turns you on.

**Munger:** I have never succeeded in something that I did not like doing.

**Buffett:** We found things we liked to do, and we pushed hard. We have had so much fun running Berkshire.

**(32) Quick: Why is pricing so rational in insurance at Berkshire when you are so large?**

**Buffett:** Berkshire is an unusually rational place. We have had a long run. We have a controlling shareholder. There is no outside shareholder pushing us in a direction we did not want to go. There is no pressure for increasing premium volume. We actually reduced our business at National Indemnity by 80% when we thought pricing was unprofitable. Most public companies could not do that. No external factors are pressing on us. We were major writers of natural catastrophe insurance. We haven't left the market. The market left us. We will not get paid 90 cents to get a probabilistic loss of $1.00.

**Munger:** We don't think we are smarter than others, we just will not do stuff we do not understand. And we will not be jealous when others do well.

**(33) Gallant: Why is reinsurance pricing so low?**

**Buffett:** We hate dumb competition. Hedge funds have entered the insurance and reinsurance business. Anything Wall Street can sell they will sell. Money may bring down prices in reinsurance. We know what we are willing to do and at what price. It can be irritating to have a dumb competitor. If the guy across the street is willing to sell below cost, you have a problem.

**Munger:** With our cranky wait-it-out methods we have ended up with the best large scale casualty business in the world.

**(34) Audience (Susan Tilson): You enjoy a lot of advantages as a male. I have noticed you have women on the board, not many do. Is it a problem, what should be done about it?**

**Buffett:** It is a problem. My views are on fortune.com. Women have not had the same opportunities. I have two sisters. They are as smart as I am and more personable. They got along with people better. Our grades were the same. They didn't have the opportunities. All of my teachers were female. I had better teachers than I deserved. There has been improvement. There is a pipeline effect. It is hard to change in one day. Katherine Graham was very intelligent. But she had been told by society that women could not succeed (in other professions). But during the time she ran the Washington Post, her stock went up 40:1. She wrote a Pulitzer Prize autobiography. Our country has come a long way and it is moving in the right direction. I hope it keeps moving and moving faster.

**(35) Sorkin: Is Berkshire too big to fail? How do you feel about Dodd Frank? Wells Fargo and Goldman Sachs?**

**Buffett:** I don't think it is affecting the insurance businesses to my knowledge. The capital ratios of big banks are being established at higher levels than smaller banks. It affects ROE. Higher capital ratios lower ROE. I consider the banking system in the USA to be stronger than at any time in the last 25 years. Capital is dramatically higher. Loans in the last five years are of higher quality. U.S. banks are better than in the EU. Canada is okay. I do not worry about the banking system being the cause of the next bubble. It will be something else. Capitalism will go to excess because of the people who are in it. I feel good about US Bancorp, M&T Bank, and Wells Fargo. They should be a decent investment. But returns on tangible equity will not be as high as 7 – 8 years ago.

**Munger:** I'm a little less optimistic about the banking system long term than you are. I don't see why massive derivative books should be mixed up with insured deposits. I would like to see something more extreme in limiting bank activities such as massive derivative books. The more bankers want to look like investment bankers, the more I don't like it.

**(36) Doug Kass: You used to do detailed analysis before investing in American Express. Now you buy Bank of America after you thought of it in the bathtub. Do you do less intense research now? Do you like the game more than the score?**

**Buffett:** You have to love something to do well at it. Passion adds to your productivity. You cannot separate the game from the score. This is what I like to do. There is nothing more fun today than to find something to add to Berkshire.

**Munger**: It is all cumulative. That's one of the great things about investing.

**Buffett:** What I learned with Geico in 1951 is still useful. You can build on it. But Geico is not changing dramatically. We do not play in the game if it is changing. I did not know much about American Express when the Salad Oil Scandal hit. I learned a lot about traveler's checks and travel cards. The CEO of Hertz said he could not get rid of American Express or get them to cut their fees. We now own 13%. We cannot buy more shares of American Express as a bank holding company, but they buy back their own stock and therefore do it for us. Our percentage ownership goes up as they buy back shares. We love it when companies buy back shares. We get a bigger percentage of the business (e.g., Coca-Cola, Wells Fargo, and IBM). It is even better when the companies earn more. The passion is not gone, I assure you.

**(37) Audience: What are the top 5 quantitative metrics that you use to judge a stock?**

**Buffett:** We are buying a business. We look at different numbers for different businesses. We see certain things that shout out to us to look further. Often we have a fact that slips back in which causes us to change our mind. I followed Bank of America for 50 years. Bank of America was under stress and could use the money. It was also good for Berkshire. We have certain things that we look for in insurance. We think about different things about Iscar. Some brands travel well, like Coca-Cola, some do not. I do not calculate a precise P/E or book ratio. I have some idea of what the company will look like in 5 years, and if there is disparity between that price and today's value.

**Munger:** We do not know how to buy a stock based on ratios. We need to know how a company actually functions. Do you use a computer to screen anything?

**Buffett**: No, I do not know how to. We do not use screens but are really screening everything. What will the business look like in 5 – 10 years? There are a lot of businesses that we just do not know the answers to and feel that we cannot foresee the future well enough. We are unsure about the automobile business. (Note: Berkshire has a stake in General Motors most likely purchased by Combs/Weschler.)

**Munger:** BNSF will have a competitive advantage in 10 years. We do not know about Apple.

**(38) Loomis: Is Bill Gross right about the new normal with lower returns in the future?**

**Buffett:** Charlie and I do no pay attention to macro forecasts. We do not know. I cannot think of a time when we have made a decision on a company based on the economy. What we do know is that BNSF will be carrying more carloads and there will be no substitute. There will be two railroads in the West. It has incredible replacement value. People will do well owning good businesses if they do not pay too much. If they try to time it, they will do well for their broker but not for themselves.

**Munger:** We have a lot of money and have to invest. I kind of agree with Bill Gross.

**(39) Brandt: What can Fruit of the Loom do about Galvan (a competitor)?**

**Buffett:** They should keep costs down and brand build. Galvan has hurt Fruit of the Loom in the last 10 years. We turn out first quality low price underwear with strong brand recognition. Galvan pays very low income tax because they route stuff through the Caymans. It will be hard to beat us in costs or to build a new brand. I think market share in men and boys will hold up.

**(40) Audience: Will you be publishing the Buffett Partnership letters? Are there any books you recommend?**

**Munger:** You would not be helped by the early partnership letters. Any names?

**Buffett:** Mosaic Tile, Meadow River Coal and Land. I have owned 400-500 names, but most of the money was made on 10 of them. The Intelligent Investor changed my life. I read every investment book in the Omaha public library by age 11. Graham's book taught me about stocks and that the market is there to serve me. Stocks are pieces of businesses, not ticker symbols.

**(41) Quick: Bill Miller is investing in the airline industry. It has been terrible historically. But now, the top 4 carriers will have 90% of the traffic. What is your opinion?**

**Buffett:** In some industries, two competitors can do stupid things. Freddie Mac and Fannie Mae drove prices for insuring loans down to improper levels. In the airline industry there is very low incremental cost per seat, but very high fixed costs. The temptation to sell the last seat is very high, and it is hard to distinguish between which is the last seat and the other seats. The industry in labor intensive, capital intensive, and largely commoditized. It has been a death trap for investors. If it ever gets down to one airline and no regulation, then it will be a good business. Is it a good business yet? I do not know, but I am skeptical.

**Munger:** The last time we were presented with an opportunity like this was in railroads where you had consolidation and the industry improved. We missed it and came back to it late. It is possible that Bill Miller is right. But, you could not create another railroad. You could create another airline.

**Buffett:** USAir went into bankruptcy twice. We were lucky to make money.

**(42) Gallant: How firm is your plan to buy back shares below 120% of book value?**

**Buffett:** Intrinsic value is what matters. Our intrinsic value is high relative to book value. We will repurchase at 120% of book value. If in our opinion the stock is at a significant discount to book and stock is available at reasonable quantity, we will buy it. If shares are repurchased below intrinsic value, earnings per share will increase. The measure of book value is unimportant for most companies.

**(43) Audience: Would Charlie move to Omaha to be closer to headquarters?**

**Munger:** No.

**Buffett:** We use the telephone.

**(44) Sorkin: What do actuaries believe are the risks of climate change? What about the debate on putting a price on carbons?**

**Buffett:** It does not affect year to year pricing for insurance.

**Munger:** I think carbon pricing is impractical and carbon taxes are better. We should have much higher taxes on motor fuels.

**(45) Doug Kass: Todd Combs used to short stocks. Would you ever consider investing in a short seller and investing $100 million at Seabreeze Partners (Doug Kass' hedge fund)?**

**Munger:** He had so much success that he stopped doing it.

**Doug Kass**: But he got the job.

**Buffett:** That's not why he got the job. We got to 1:55 p.m. before the first ad.

**Munger:** The answer to your question is no.

**Buffett:** Charlie and I are no strangers to short selling.

**Munger:** We both failed at it.

**Buffett:** We used to do a reasonable amount of short selling. I've identified frauds and overvalued companies. But it is not a game we like over a long period of time.

**Munger:** We do not like trading agony for money.

**Buffett:** But we wish you well.

**(46) Audience: How did you determine a fair price for Heinz?**

**Buffett:** We usually believe we are paying too much. But we pay the price if the business is good. There is no mathematical formula. We look to buy businesses that we expect to earn high rates of return over time and preferably reinvest to grow.

**Munger:** It is a game of learning, if you want to win.

**Buffett:** We want to win.

**(47) Loomis: How can you support an administration (Obama) that put us in so much debt?**

**Buffett:** We will have to give Bush some credit for the $16 trillion of debt. The Obama administration was not responsible for the financial crisis. The amount of deficit spending has been appropriate in response to the crisis, the largest in my lifetime. We had Freddie and Fannie in conservatorship, GE calling Berkshire for money, and money funds being drained by 5% in 3 days. We needed the stimulus. The problem is how to get out of it. But it is a lesser problem than if we had an austerity program.

**Munger:** I agree with you completely. So did George W. Bush.

**Buffett:** The 10 greatest words in economic history (by George W. Bush): "If money doesn't loosen up, this sucker could go down." We owe him a lot in that respect, and many did not agree. I am disturbed by national debt that grows as a percentage of GDP. But we have encountered far worse problems.

**Munger:** If GDP grows at 2% per year, all problems will fade into insignificance.

**(48) Brandt: How competitive is Benjamin Moore?**

**Buffett:** We have a small percentage of the total paint market. We have not lost our position in the high-end. We use dealerships for Benjamin Moore.

**Munger:** It is a very good business.

**(49) Audience: What are the 20 best strategies to outperform the market?**

**Buffett:** You should spend time becoming an expert on businesses. Buy American businesses in a diversified way such as index funds.

**(50) Quick: Your stock donations are very generous. Could the annual sales of those shares (by Gates Foundation) result in a lower share price for Berkshire?**

**Buffett:** The foundations sell $2 billion every year, or 1% of float. Many stocks trade 100% of float per year. A supply of 1% annually is not going to change the level where a stock trades. Berkshire's daily volume is about $400 million. $2 billion over a year will not affect its price per share.

**(51) Gallant: What are the tea leaves telling you about the U.S. economy? What about investing (buying entire companies) internationally versus in the US?**

**Buffett:** We will find most of our opportunities in the U.S. We are better known here. Since 2009 the U.S. economy has been gradually improving.

**(52) Audience: What advice do you have if I want to start a fund?**

**Buffett:** Start developing an audited track record as soon as you can. We looked at Ted and Todd's record. Our job is to make sure we are not hiring someone who is lucky. With 2 and 20, hedge fund managers have made a lot of money, and Ted and Todd would have earned $120 million just by putting money in the ground.

**(53) Sorkin: Is Ajit your successor?**

**Buffett:** We operated 20 years without Ajit. If he came in 1965, we would own the world.

**(54) Doug Kass: Other than by accident of birth, why is your son Howard qualified to be the next chairman of Berkshire?**

**Buffett:** It will not be his job to run the business or allocate capital. But if a mistake is made in selecting the CEO, he is there as a protector of the culture. The chance our choice in CEO will be correct should be 99 out of 100. He will be able to make a change in CEO if a mistake is made.

**Munger:** The board owns a lot of Berkshire stock.

**(55) Audience: Is the low interest rate environment a challenge to insurance companies? To individual savers?**

**Buffett:** No. The problem faced by people who have stayed in cash is brutal. Equities were cheap. You were going to get killed in low interest fixed investments. One should own productive assets rather than dollars.

**Munger:** It had to hurt somebody, and the savers were convenient. I would have done what they did (Federal Reserve), but I would have felt bad about it.

**(56) Audience: What is the moat surrounding IBM?**

**Buffett:** I do not understand the moat at IBM as well as I do at Coca-Cola. I have more conviction on the moats at Coca-Cola, Mars, and Wrigley. But I feel good enough about IBM to have a considerable position. I think the odds are good that their market position will be maintained over time. But, IBM has large pension obligations.

**(57) Audience: How was your behavior different when you managed a small amount of capital?**

**Buffett:** We would look at small things. The opportunities are out there and periodically they are extraordinary. But we have $12 -$14 billion coming in every year.

**(58) Audience: What is your view of emerging markets?**

**Buffett:** We do not start out looking at either countries or emerging markets. Just find a good business. If we could only invest in the U.S. for the rest of our lives, we would not regard that as a huge hardship.

**(59) Audience: Are we near a housing bubble now? What was/is the role of the government?**

**Buffett:** We are not in a bubble now. Government was a big part of the problem due to financing. Legislators were encouraging Fannie and Freddie to do silly things. People get fearful and greedy en masse. There was a lot of leverage in housing, and finally the roof caved in.

**(60) Audience: Are there good opportunities in the Euro Zone?**

**Buffett:** We will be happy if we find businesses in any of the 17 countries. The EU is not going away. But the monetary union has a major flaw – 17 political bodies and diverse cultures.

**Munger:** Letting Greece into the EU was like using rat poison as whipping cream. It is not a responsible country. They committed extreme fraud in getting into the union and lied about their debt. But the EU will muddle through.

**(61) Audience: What is the impact of the Internet on Berkshire's businesses?**

**Buffett:** Internet marketing is making a big difference at Geico. The Internet has affected everyone, spread across the age range.

**(62) Audience: What do you look for in financial statements? How do you identify fraud?**

**Buffett:** We do not have a checklist to look at regarding the balance sheet or the income statement. We are assessing people. I have seen frauds, when offering stock to the public, reserves go down. Or when selling other insurance companies, they were buying stock. If you have doubts, forget about it.

**Munger:** In accounting you can do things like they do in Italy. When the mail piles up, they just throw away a few car loads of mail.

**(63) Audience: Would you invest in a business in Africa?**

**Buffett:** I would not preclude it.

**(64) Audience: How much is enough to leave to your children?**

**Buffett:** More kids are ruined by the behavior of their parents than by their inheritance. The children should read the will while you are alive so they can ask questions on how you want them to carry it out.

**Munger:** You do not want to discuss the will with your children if you treat them unequally.

**(65) Audience: What is your view of a stock split for Berkshire?**

**Buffett:** I think we have a good arrangement now. We created B shares which are in the $100 range. I have no reason to change the present situation.

**Meeting Adjourned**

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