

BERKSHIRE HATHAWAY 2021 ANNUAL MEETING NOTES

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INTRODUCTION

Warren Buffett: Good morning. It's 10:30 here in Los Angeles. We are going to hold our second virtual annual meeting of Berkshire Hathaway. We did it in Omaha last year on short notice. We had more warning this time, and so we came to Los Angeles and the reason we're doing it from here is because of the man on my left, not because he asked for it, but because all of us wanted to do it with Charlie and here in Los Angeles. So I'll introduce the three vice chairmen of Berkshire in a minute. I'll show you the first quarter earnings. We won't take much time on that. I'll have one or two very short lessons for perhaps the new investors who were not necessarily in Berkshire Hathaway, but people who have entered the stock market in the last year. And I think there've been a record number that have entered the stock market. I'll have a couple of little examples for them. And then we'll swing into a Q&A led by Becky Quick, who looked at thousands of questions that have been submitted to her, but more can be submitted during this meeting. And we will put up a camera from time to time. That way you can communicate directly with her if you want to send questions in during the meeting. And she got flooded with them last time and she miraculously keeps sorting them out. And so feel free to send in a question. And we will have a question period for about three and a half hours, and then we will finally have the annual meeting, which won't take long at the end.

And so with that, I would like to first introduce the three vice chairmen of Berkshire Hathaway. I'll tell you just a little bit about them and then I'll have a mild surprise for you at the end, perhaps. On my left is Charlie Munger, and I met Charlie 62 years ago. He was practicing law in Los Angeles. He was building a house at that time, a few miles from here, and 62 years later, he's still living in the same house. Now that's kind of interesting because I was buying a house just a few months before, 62 years ago, and I'm still living in the same house. So you've got a couple of fairly peculiar guys, just to start with, in terms of their love affair with their homes. And Charlie and I hit it off immediately. And I would say he's probably the vice chairman in charge of culture among other things. But if I ever want to get questions about where true north is, I talk to Charlie, and he has been an enormous help. He's done it with a lot fewer hours and a lot less talking and everything than I have, but he's contributed in an incredible way to Berkshire. So Charlie has been out here in Los Angeles for 60 plus years.

On my right, your left, I have the vice chairman in charge of everything except insurance and investments, Greg Abel. Greg was born and raised in Edmonton, Alberta. He's Canadian, plays hockey, his eight-year-old plays hockey. And he came to the United States sometime after he graduated from college in Canada. And he is in charge of a business which has well over 150 billion in sales and employs more than 250,000, probably 275,000 people. And he does a much better job at doing that than I was doing previously.

And on my far left, your right, we have Ajit Jain. And Ajit was born and raised in India and graduated from college there. And I met Ajit on a Saturday in 1986, and I'd been in the insurance business, Berkshire had been in the insurance business for quite a while. And I was stumbling around in various ways. And Ajit came to the office on Saturday. I was opening the mail and I said, "How much do you know about insurance?" And he said,

“Nothing.” And I said, “Well, nobody’s perfect. Let’s talk about it some,” and by the end of the morning, I knew I had somebody that was going to build a great insurance business.

And starting from that point this improbable little company in Omaha became the largest property casualty company in the world in terms of net worth. It writes risks occasionally in a 24-hour period that other companies simply couldn’t take on themselves, they’d have to assemble other people and it would take them a long time to come to a decision and that was very important at various times in the past. It’s not so important now. But he’s built an incredible, the world’s leading property casualty insurance company.

So here we have Charlie from LA, 60 some years. We’ve got Greg from Canada, we’ve got Ajit from India. And the one thing in common that these three fellows have, aside from working for Berkshire and doing a sensational job, the one thing in common is that at one time or another, for some extended period, they lived within a mile of me in Omaha, Nebraska. And Charlie in 1934, moved about a hundred yards away from where I now live and went through high school, eventually went into the service and knows the neighborhood as well as I do, went to the same grade school my kids went to, and so on. Greg spent a significant time living in Omaha, lived about five or six blocks from me and now lives in Des Moines. And Ajit was in Omaha about a mile away for a couple of years. So we started in very different places and sort of came together. And now we go our separate ways, but it’s all worked very well. And you’ll hear from them during this meeting, and I urge you to send questions, you can direct them to me or you can direct them to any one of the other three, and it will be a big relief to me if you direct a fair number to the other people.

FIRST QUARTER RESULTS

So we this morning, as we always do, we always do it on a Saturday, we published our 10-Q, which gave the quarterly earnings. It’s up on our website, berkshirehathaway.com. And it’s very interesting. We put these out on a Saturday morning. That’s not because the media likes us to do it that way. It’s not because the analysts like to do it that way, but we want to give you the maximum time to digest an awful lot of information that’s in that 10-Q.

It can’t be summarized in a perfect way. We’ll give you some summary figures, but if you’re really a student of the place, and most of our investors buy because they simply have faith in these other three fellows to do a good job. And it’s not a misplaced faith. But if you really enjoy going into the details and you want to understand the nuts and bolts of Berkshire Hathaway’s various operations, you should read that 10-Q and it’ll take you, it may take you a couple of hours. I mean, it’s not a small investment of time, but it’s got a lot of information about all our various businesses. And for those of you who are business students of a sort, I recommend you go to it.

The summary figures you see here, which are the ones we put in our press release, show an interesting pair of numbers I made down there at the bottom. We have last year, when you see those brackets around numbers, you’ve got to know you’ve got to start worrying. And the first quarter we actually showed a loss of almost \$50 billion.

I never thought I’d ever see a figure like that. And I was thinking back, I was trying to remember whether I had gone on vacation during that quarter and turned things over to the other guys or what, but I checked the calendar and that was me. And that figure this year is

a positive figure of \$11.7 billion and neither figure is very meaningful in itself. The accounting standards board a few years ago for many, many, many, many years unrealized gains or losses of a company like Berkshire made adjustments to the net worth of Berkshire, but they did not run through earnings. And a few years ago, the rule was changed so that every time one of the stocks go up or down, it goes through our earnings account. So on the first quarter of last year, when stocks went down a lot, we had a huge sum of unrealized –well, it was a reduction of unrealized gains, largely. And when you start saying things like that, you start losing people. But if we reported earnings daily, you would see earnings one day of 3 billion, next day minus 2 billion. And it's an accounting treatment that we don't think is particularly appropriate, but it's required. And we've explained very carefully, both in our press releases, or we try to explain, and I tried to write in my letter and explain why I don't think that's the way to look at Berkshire. We think over time that we will have investment gains for reasons I lay out in my letter over a period of time, the companies we own stock in retain earnings and they use those reinvested earnings usually to our benefit. And that shows up in capital gains some day. But reported earnings for a company that has a lot of common stocks, marketable stocks like ours, you don't want to look at that final line and you do want to look at the operating earnings line.

Now, I would say that if you would take the first two months of last year and compare it to the first two months of this year, those figures would have been quite comparable. But of course, in March 2020, the economy was shut down. And the effect, I mean, it was a self-induced recession and an abrupt one. Very abrupt. And so **the economy went off a cliff in March and it was resurrected in an extraordinarily effective way by federal reserve action and later on the fiscal front by Congress**, and we'll get into that later. But the figure you see, the difference was March, basically, and our businesses have done -- we'll get into more specifics later, but **our businesses have done really quite well. This has been a very, very, very unusual recession in that it's been localized as to the industry to an extraordinary extent and right now business is really very good in a great many segments of the economy**, which we'll talk about later. But there's still problems if you're in the few types of businesses that have really been decimated, such as international air travel or something of the sort. So with that, we'll go back to the figures later on, perhaps in some of the questions.

STOCK MARKET VALUATIONS

I would like to just go over two items that I would like particularly new entrants to the stock market to ponder just a bit before they try and do 30 or 40 trades a day in order to profit from what looks like a very easy game. So I would like to go to slide L1. So put that up. And these on March 31st, I ran off a list of the 20 largest companies in the world by stock market value and those names, a good many of which will be familiar to you, but they were led by Apple that's slightly over \$2 trillion and went down to the number 20 was worth \$330 odd billion, but those were the 20 largest companies in the world by market value on March 31st.

Now, if I had a little, I was hoping I could get a little quiz machine, so I could have everybody weigh in on this answer, and we could flash it up a little later, but both technically impossible, but what I would like you to do is look at that list. It starts off with Apple. Saudi Aramco is a pretty specialized company. I don't know whether it's 95% owned by the government or what, but it's essentially a country that's for sale in terms of that business. But of the top six companies, five of them are American. So when you hear

people say that America hasn't done -- it's not working very well or something of the sort, in the whole world of the six top companies in value, five of them are in the United States.

And if you think about it, we talked a little about this last year, but in 1790, we had one half of 1% of the world's population. A little less, we had 4 million people, 3.9 million people, 600,000 of them were slaves. Ireland had more people than the United States had. Russia had five times as many people as the US. Ukraine had twice as many people as the United States. So here we were, but what do we have? We had a map for the future, an aspirational map, that somehow now only 200 and well, after the constitution, 232 years later leaves us with five of the top six companies in the world. It's not an accident. And it's not because we were way smarter, way stronger, or anything of the sort. We had good soil, we had decent climate. But so did some of those other countries I named. And the system has worked unbelievably well. Just imagine thinking of five of the top six companies in the world, ending up with a country that started with a half of 1% of the population just a few hundred years ago.

But what I would like you to do is look at that list for a minute or two, if you want to, and then make an estimate, make your own guess, how many of those companies are going to be on the list 30 years from now. Here they are, these powerhouses. And how many would you guys think would be on the list? Well, it's not going to be all 20. It may not even be all 20 today or tomorrow. This was March 31st. But what would you guess? Think about that yourself. Would you put on five? Eight? Well, whatever it would be, I would now invite you to look at slide two or L2, which goes back a little more than 30 years. And look at the top 20 from 1989. And if you look at the top 20 from 1989, there's two things that should grab your interest. At least two. None of the 20 from 30 years ago are on the present list. None. Zero. There were then six US companies on the list and their names are familiar to you. We have General Electric, we have Exxon, we have IBM Corp. And they're still around. Merck is down there at number twenty. None made it to the list 30 years later, it was zero. And I would guess that very few of you, when I asked you to play the quiz a few minutes ago, would've put down zero. And I don't think it will be zero, but it is a reminder of what extraordinary things can happen. Things that seem obvious to you. Japan had this wonderful bull market for a very long time. So we had a number of Japanese companies on the list. Today, there are none. And the United States had the six. Now we have 13. But they aren't the same six. I would invite you to think about one other thing as you look at this list. 1989 was not the dark ages. I mean, we weren't just discovering capitalism or anything else. And people thought they knew a lot about the stock market and the efficient market theory was in. And they were all, it was not a backward time. And if you look, the top company at that time, had a market value of a hundred billion, \$104 billion. So the largest company in the world of title in just a shade over 30 years has gone from a hundred billion to \$2 trillion.

And at the bottom, the number 20 has gone from \$34 billion to something a little over 10 times that. Well, that tells you something about what's happened with equality, which is a hot subject in this country. And it tells you a little bit about inflation, but this was not a highly inflationary period as a whole. But it tells you that capitalism has worked incredibly well, especially for the capitalist. And it's a pretty astounding number. You'd think it could be repeated now that, 30 years from now, that you could take \$2 trillion for Apple and multiply any company and come up with 30 times after the leader. Yeah, it seems impossible and maybe it is impossible, but we were just as sure of ourselves as investors

and Wall Street was in 1989 as we are today, but the world can change in very, very dramatic ways.

And I'll just give you one other example you might ponder before you start getting too sure of yourself. One thing it shows incidentally is that --it's a great argument for index funds --is that the main thing to do is to be aboard the ship. A ship. They were all going to a better promised land, you just have to know which one was the one to necessarily get on. But you couldn't help but do well. If you just had a diversified group of equities, US equities, that would be my preference, but to hold over a 30-year period. But if you thought you knew a lot about which ones to pick or the person that you had hired, you were paying a lot of money to, had all these ideas, and they could tell you their best ideas. And 1989 did not necessarily do that. Well, overall equities were absolutely the place to be.

SEEK COMPETITIVE ADVANTAGES

Secondly, people get enormously attracted to various industries. I mean, they think if a company says it's in the XYZ industry and that's a popular one, you can sell IPO's. You can sell SPACs. People disregard sales numbers, or earnings numbers. It's the place to be. So Berkshire Hathaway, where was the place to be in 1903? My dad was born in 1903, but that wasn't really that big of news, but that wasn't big news, actually, Henry Ford was starting the Ford Motor Company. It had failed a couple of times before, but he was about to change the world. I mean, the auto. And when you think about everything, we've got a great auto insurance company, if there weren't any autos, we wouldn't have GEICO. But it transformed the country. And Henry Ford brought in the \$5 daily wage. And that was a huge thing. Assembly lines, everything, autos came along.

So, let's just assume that you had seen a quick glance back in 1903 of all the interstate highways, 290 million vehicles on the road in the United States, everything about IT and you'd say, "Well, this is pretty easy. It's going to be cars. It's going to be autos." Well, Berkshire, let's see what we've got up there. Yeah. No, stay where you were. Go back. I don't want to change slides yet. Go back to the Ls. The Berkshire by accident. Well, we owned a company called Marmon. We bought it from the Pritzker family some years ago. The Pritzkers had built this business from many, many, many companies that they had acquired, and the name of their company was Marmon. And I don't know exactly why Jay and Bob decided on the name of Marmon, but they did own a company called Marmon. And the Marmon company, getting slightly ahead of me on the slides again, but that's okay. They owned this company Marmon, which in 1911 had been the company whose car won the first Indianapolis 500. Maybe that's why they called it Marmon and were proud of the fact that the company in 1911 won one of the first Indianapolis 500. It also was the company that invented the rearview mirror. I'm not sure whether that was a big contribution to society. And certainly, around your household, a rearview mirror, you don't want to emphasize too much. But the car that was entered in the Indianapolis 500, the guy who normally sat next to the driver and looked backwards to tell what the competitors were doing, he was sick. So they invented the rearview mirror. So let's just assume that you had decided that autos were this incredible thing. And someday there'd be an Indianapolis 500 and someday they'd have rearview mirrors on cars. And someday 290 million cars would be buzzing around the United States or autos or trucks there.

And so I decided to look at the history and I thought I'd put up the list of auto companies from over the years. And I was originally going to put up just the ones that were the M's, so

I could get them on one slide. But when I went to the M's, it went on and on and on. So I just decided to put up the ones that started with MA, and as you can see, there were almost 40 companies that went into the auto business, just starting with MA, including our Marmon there in the middle column, and which lasted for a while, quite a while, but it was selling cars in the 1930s, were really quite special. But in any event, there were at least 2000 companies that entered the auto business because it clearly had this incredible future. And of course, you remember that in 2009, there were three left, two of which went bankrupt. So, there was a lot more to picking stocks than figuring out what's going to be a wonderful industry in the future.

The Maytag company put out a car. Allstate put out a car. DuPont put out a car. I mean, Nebraska, there was Nebraska Motor company. Everybody started car companies, just like everybody's starting something now that can be where you can get money from people. But there were very, very, very few people that picked the winner and they got the opportunity for that. At Ford Motor, Henry Ford had a few partners and he didn't like them. So he figured a way to buy them out. That was the beginning of the auto finance. That's a long story. We won't get into that, but you couldn't buy into the Ford Motor. And of course, General Motors became the dominant company. Finally, when Henry Ford did not really make the shift from the Model T to the Model A, it did not work very well. So I just want to tell you, it's not as easy as it sounds.

And with that, we will go to Becky Quick then, and she will ask any of the four of us questions she has selected and which she doesn't share with us. And we will do this for a considerable period of time. You can be sending in questions to her. And then later on, after about three and a half hours, we will have the annual meeting, which won't take long. So Becky, over to you.

INVESTMENT DECISIONS DURING THE PANDEMIC

Becky Quick: Thanks, Warren. And hello to everybody. This first question that came in, came in from Andy Seas. He says he's the owner of not nearly enough B shares. He says, "Mr. Buffet, you're well known for saying to be fearful when others are greedy and be greedy when others are fearful. But by all appearances, Berkshire was fearful when others were -- most fearful in the early months of COVID, dumping airline stocks at or near the low, not taking advantage of the fear of gripping the market to buy shares of public companies at exceptional discounts and being hesitant to buy back significant amounts of Berkshire stock at very attractive prices. I'd appreciate hearing your thoughts surrounding this time and how Berkshire approached its decision-making specifically after it was assured through the CARES Act that the government would provide a robust backstop to the financial markets."

Warren Buffett: Well, of course, until both monetary and fiscal policy kicked in, well, we knew we had an incredible problem and I am, just as Charlie is the chief culture officer, I'm the chief risk officer of Berkshire. That's my job. We hope we do well, but we want to be sure we don't do terribly. But we didn't sell a substantial amount. I mean, **we're a company with six, probably \$700 billion worth of businesses. Some we own in their entirety and some we own a piece of, and I don't know whether we were sellers of maybe 1% of the value of all the businesses we had at that period.**

But the airlines, just kind of interesting with the airline businesses in particular, and then I'll get to what was done as fiscal monetary policy. But we had a few people at various subsidiaries of Berkshire that wanted to go in for help from the government and in some cases they had minority shareholders who owned a few percent and they said, "Well, we're going to get killed by what's happening with the regulations that are being put out and with stopping the economy." And they said everybody's going in for them and why don't we go in? And I said, "Berkshire can handle it, this is for people that can't handle what's happening." And so we're not applying.

But the airlines were the most prominent beneficiaries of what took place. Immediately, they got \$25 billion initially, most of which went to the big four airlines and some of which went in as grants, not loans. And I think that was fine public policy. I was wishing it could go to every restaurant and dry cleaner and every small business that really was out of business and had no, they were made toast of basically. But the airlines, clearly what happened was not their fault in any way, shape or form.

It wasn't like 2008 and 2009 when people blamed the banks and hated to see them helped. Now airlines operate in bankruptcy. So it isn't like that the three of the four big ones went through bankruptcy within the previous --the airlines were used to operating in bankruptcy, they would have kept operating, but it was perfectly proper for the airlines to be helped. The entire airline business. You look at these figures of \$2 trillion for Apple. And so the entire big four airlines, they sold for about a hundred billion dollars almost. I mean, it's so very, very small and combined they wouldn't come close to making the cut. I mean, they wouldn't be in the top 50. So anyway, they went into the government, they needed the government help, or they needed it, or they would go bankrupt, some of them, and really Congress decided they deserve the help, which I do not quarrel with at all. But imagine if Berkshire was the 10% holder which they had been, they might've very well had a very, very, very different result if they'd had a very, very, very rich shareholder that owned eight or nine percent. And they didn't have that when they went in. You might not have gotten the same result. In fact, I would think you probably wouldn't.

I mean, I can just see the headlines now. I mean, because you've seen the headlines on some companies that took a hundred million or two, and really didn't need it, and some of them gave it back, most of them gave it back, but here you're actually looking at probably a different result than if we'd kept our stock. But in any event, an industry that was really selling for less than a hundred billion dollars lost a significant amount of money. They lost prospective earnings power.

Right now, international travel's not come back, but I would say overall to them, the economic recovery has gone far better than you could say with any assurance. We didn't like having as much money as we had in banks at that time. So I cut back some of the bank investment, but basically our net sales were about 1%, or one and a half percent. And looking back now, a little bit better buying, but I did not consider it, I do not consider it a great moment in Berkshire's history, but also, we've got more net worth than any company in the United States, under accounting principles. And we've got six or 700 billion of generally good businesses. And I think the airline business has done better because we sold, and I wish them well, but I still wouldn't want to buy the airline business. International --people really want to travel for personal reasons, and business travel is another thing. And we've got a big exposure to business travel, of course, through the fact that we own 19% of American Express, and we own Precision Castparts, which serves the air business

very well. So, we've still got a big investment in air travel, a big commitment to it, but we wish the big four the best, and I think their managements have done a very good job during this period.

CASH HOLDINGS DURING THE PANDEMIC

Becky Quick: More specifically, beyond the airlines though, just the idea of, and this came from several questions, too, including one from Chris Blaine, you spent years accumulating cash, insisting you had your elephant gun ready. The March 2020 listed equity selloff came with promises from the US government that they would do what it takes, yet you sat on your hands. Please help me understand what I missed.

Warren Buffett: I didn't get quite the last part. What was the final question?

Becky Quick: Just please help me understand what I missed. Why didn't you use more of the cash at hand?

Warren Buffett: We have about, **our cash on hand has been about 15% of our values of our businesses. And that's a healthy chunk, and I'd say, it'll never get below \$20 billion, but we're going to raise that number because it's just the size and importance of Berkshire is that we could have just deployed \$50 or \$75 billion.**

And right before the Fed acted, we hit a point where two calls came in, but it was two or three days nothing could happen, when Jay Powell acted as he did, that was incredibly important. I should say, the Fed acted as they did, but they moved with speed and a decisiveness on March 23rd, that changed the situation where the economy had stopped. The government bond market was even disrupted. Berkshire Hathaway probably could not have gone out with a debt offering the day before that. It didn't get a lot of publicity time, but there was a run on money market funds, a very substantial run.

And if you look at the daily numbers on that, it was a repeat of September 2008. And this time I give great credit to what Bernanke and Paulson did, but this time, the Fed knew that saying whatever it takes, and saying it and demonstrating it, which they did on March 23rd, they took a market where Berkshire couldn't sell bonds on the day before, and turned it into one where Carnival Cruise Lines managed to sell it a day or two later. And there was a record issuance of corporate debt, and companies losing money, companies that closed, whatever, it was the most dramatic move that you can imagine. And at the time, I remember the chairman saying, "How about a little help on the fiscal front?" And then Congress acted very, very big again.

In 2008 and 2009, they argued about, we don't want to give any money to those dirty banks, all that sort of thing, but this time there really wasn't anybody to blame. So they saw what was necessary, and Congress responded. So **you have fiscal monetary policy that responded in a way that was incredible. And it did the job. I think it did a better job than either the Fed or the Treasury or anybody expected. This economy right now, 85% of it is running in super high gear, and you're seeing some inflation and all of that, it's responded in an incredible way.**

We learned something out of 2008 and 2009, and then we applied it. But I don't think it was a sure thing that would happen. And the one thing about Berkshire is, we don't want to

depend on anybody. We're not a bank. We can't go to the federal reserve if we need money. And we've got to be sure that under any circumstances, any circumstances, we can't solve nuclear war, and maybe we can't, but Blanche DuBois, if you remember, in *A Streetcar Named Desire*, said, "I depend on the kindness of strangers." You can't depend on the kindness of your friends if things really stop. I've seen that in several different places.

We were seeing it in March, the middle of March, everybody was drawing down the credit lines. The banks did not expect that. They just weren't sure they were going to be able to draw down their credit lines 10 days later. And so they just drew them down and they took the money out of the money market funds. We got very prompt. I give great credit on both the monetary and fiscal side of what was done, but I didn't think it was a sure thing that would happen. I didn't know how it'd be implemented. It's worked. I think it's worked better than just about anybody has expected. And I think, well, you're seeing it now. Charlie's got some views on this too, so we shouldn't leave him out of it.

Charlie Munger: Well, it's crazy to think anybody's going to be smart enough to hug the money and then just come out on the bottom tick in some crazy crisis and spend it all. Always there's some person that does that by accident, but that's too tough a standard. Anybody who expects that of Berkshire Hathaway is out of his mind.

Warren Buffett: Yeah, Charlie. Charlie and I never were very good at dancing, but we really can't do that dance.

Charlie Munger: No, we can't. And by the way, almost nobody else can either.

Warren Buffett: Not with tens of billions.

Charlie Munger: No.

Warren Buffett: Or hundreds of billions. But it's worked out well. We forgot to show one of the financial slides, actually, if you go back to the balance sheet, but we did buy in, in the first... You'll see the shares outstanding. If we go back to them, to what was it? I think it's E2.

The balance sheet? Yeah. There, it shows the shares outstanding at the bottom. **And we spent about \$25 billion last year repurchasing shares. We can't buy companies as cheap as we can buy our own, and we can't buy stocks as cheap as we can buy our own. So, and we've been able to do that with a fair amount of money**, but looking back, I feel definitely we could have done better things. We would've sold airlines and cut back on banks regardless. Whether we should have bought something else at the same time's another question.

Berkshire vs Index Funds

Becky Quick: This question comes from a long-term shareholder who's been here for more than 25 years. His name's Ben Nowell. He's from Minneapolis, Minnesota. And he says, "Mr. Munger and Mr. Buffett, after a 15-year-period of market under performance, you're cautious about predicting Berkshire being able to outperform the market in the future.

Given this, what do you see the arguments for longtime shareholders to continue holding their stock versus diversifying the risk across an index?"

Warren Buffett: Charlie, you want to answer that?

Charlie Munger: Well, sure. Well, **I personally prefer holding Berkshire to holding the market. So I'm quite comfortable holding Berkshire. I think our businesses are better than the average in the market.**

Becky Quick: Is it because you don't think the market values it fairly?

Charlie Munger: Well, these are just accidents of history, and things are fluctuating at all times, but on a composite basis, I'd bet on Berkshire over the market. And that's assuming we're all dead.

Warren Buffett: Yeah. I recommend it. I recommend the S&P 500 index fund, and have for a long, long time, to people. And I've never recommended Berkshire to anybody because I don't want people to buy it because they think I'm tipping them into something, I'd never, no matter what it was selling for. And I've made it public. On my death, there's a fund for my then-widow, and 90% will go into an S&P 500 index fund and 10% in treasury bills. On the other hand, I'm very happy having my future contributions go to a group of charities, that'll be spread over 12 years or so after my death, to stay in Berkshire. I think the odds are Berkshire--Berkshire, I like it, but I do not think the average person can pick stocks.

We happen to have a large group of people that didn't pick stocks, but they picked Charlie and me to manage money for them, 50 or 60 years ago. And so we have a very unusual group of shareholders, I think, who look at Berkshire as a lifetime savings vehicle, and one that they don't have to think about it, and one that if they don't look at it again for 10 or 20 years, that we'll have taken care of the money reasonably well. But I wouldn't argue that the S&P 500 over time --**I like Berkshire, but I think that a person who doesn't know anything about stocks at all, and doesn't have any special feelings about Berkshire, I think they ought to buy the S&P 500 index.**

Becky Quick: As a follow-up to that, Gerald Silver writes in. He says, "I believe you've directed the trustees of your estate to invest substantial assets into the index fund. Isn't that a vote of no confidence to your managers?"

Warren Buffett: Well, no, because we're talking about way less than 1% of my estate. And one thing I'm going to do, incidentally, all rich people get advised by their lawyers to set up trusts so that nobody could see your will and all that sort of thing. My will's going to be a public record, and you'll be able to check at some point that I've been telling you the truth about what is going to get done, but 99.7%, roughly, of my estate will either go to philanthropies or to the federal government. And before it does, I think Berkshire is a very good thing to hold, but for a given individual, particularly my wife, I just think that having a tiny fraction, which is all it takes for her to do very well for the rest of her life, I just think that the best thing to do is buy 90% in an S&P 500 index fund.

Now, the index fund people naturally have started, over time, they market more and more products that go to other indices and everything, so they're really starting to say to the American public, they're saying, "Well, you can pick what continent to invest in, or you can

pick what industry, and we'll sell you something for that." And when they just have gotten through telling them, you really don't know anything about stocks, just buy the whole index. So I named the 500 index as one, but it's a tiny portion, but it'll be her livelihood and she'll have all the money she needs and way beyond it. And that's that. **And I don't mind having the 99.7% large portion of it, assuming the law's the same as now, go to philanthropy, to be kept in Berkshire until they finally are disposed of.**

ENERGY STOCKS

Becky Quick: This question comes from Andrew Dickson in the UK. He says, "My question is in relation to the oil and gas business, and your purchase of Chevron stock. When being asked a question on tobacco stocks in 1997, you mentioned that individuals and companies occasionally have to draw moral lines about what they're willing to do. You stated at the time that you were not comfortable in making a big commitment in tobacco stocks, and that you were uncomfortable about their prospects. Charlie has also referenced passing up on a private tobacco deal that you both knew was a cinch, yet you both have no regrets in saying no to the transaction. I'm not suggesting that the oil and gas business has the same no negative externalities as cigarettes. They do not. With tobacco, the cause and effect relationship between the products and cancer is direct, obvious, and measurable. With hydrocarbons, the societal costs and benefits are far more complex to evaluate. However, an increasing portion of society is drawing their lines in such a way that their painting does not include hydrocarbons, period. My question is, has the alarmism from the climate community now become pervasive across society to the extent it has become irrational? Have we built our own unrealistic consensus on the pace of change achievable with regards to the transition to greener energy sources to the extent that this is becoming an overly expensive tax worn by the current younger generation? Can we gather from your purchase of Chevron stock that you do not believe the howling from society, regulators and politician will impair the prospects of hydrocarbons, and Chevron, for that matter, in the next 10 years? Can investors still assume an oil and gas business that finds and produces oil at low cost per barrel can generate a sufficient return on capital for a long time to come?"

Warren Buffett: Well, I'll give you a 10-word answer to that. I can't remember all the questions that were there, but I would say that people that are on the extremes of both sides are a little nut. I would hate to have all hydrocarbons banned in three years, or you wouldn't want a world that, it wouldn't work. And on the other hand, what's happening will be adapted to, over time, just as we've adapted to all kinds of things. I'm interested in a quote from 1997, because now we've talked about this before. We have no problem owning Costco or Walmart, and a substantial number of their stores, they sell cigarettes, it's a big item. It's something that brings people in, they know the price of cigarettes and now they put them up front.

So it's a very tough situation. We made that decision a long time ago, when we went to Memphis, and we looked at a business that was a very, very good business, and it was much less harmful, at least from everything I could find out, it was much less harmful than smoking tobacco, chewing tobacco, was. And these were decent people and they were running a legal business and they all chewed tobacco themselves. So they went there, and they told me that their mother was a hundred, and chewing tobacco, and all these things. But Charlie and I did go down in the lobby of that hotel, and we just said to ourselves, this is probably the best business we've ever seen. And I called my then son-in-law, Allen

Greenberg, and he'd studied chewing tobacco and its effects when he was working for a NATO-related organization, and we decided not to do it.

But I used to see ads in our paper from financial companies where I knew they were terrible, it's a very tough thing to decide whether you get in or out of a business. It's a very tough time to decide what companies benefit society more than others. I think Chevron has benefited society in all kinds of ways and I think it continues to do so, and I think we're going to need a lot of hydrocarbons for a long time and we'll be very glad we've got them, but I do think that the world's moving away from them, too, and that could change.

I don't like making the moral judgments on stocks, in terms of actually running the businesses, but there's something about every business that if you knew it, that you wouldn't like. Meat packers, have you ever gone through a meat packing plant? If you expect perfection in your spouse or your friends or in companies, you're not going to find it. And what you elect to do yourself, if you own an index fund of your own, Chevron's not an evil company in the least, and I have no compunction in the least about owning Chevron. And if we own the entire business, I would not feel uncomfortable about being in that business. Charlie?

Charlie Munger: Well, I agree. You can imagine two things. A young man marries into your family, he's an English professor at, say, Swarthmore, or he works for Chevron, which would you pick? Sight unseen? I want to admit, I'd take the guy from Chevron. Yeah.

Warren Buffett: I hope your daughters agree with you.

ESG and CLIMATE RELATED RISKS AND DIVERSITY

Becky Quick: On the other side of that argument, because there were lots of emails that came, on both sides of these ESG questions. This one comes from Christina Gallegos, who has been a shareholder since 2018. And she says, "On items two and three of the proxy materials, the board recommended voting against on the shareholder proposal regarding the reporting of climate-related risks and opportunities as well as on the shareholder proposal regarding diversity and inclusion reporting. Berkshire is such a force for good when it comes to financial literacy and empowerment through wealth creation, why not be a force for good and an example when it comes to these two very important issues? Please share with us more about the, "Against recommendation."

Warren Buffett: Well, I think maybe Greg can talk a little bit about what Berkshire has done in terms of the environment. I would say this, it's very interesting. With everything that's been-- I think we have over a million shareholders, you can't be a hundred percent sure, because of street name and duplicate accounts and all that sort, but it certainly seems very, very likely.

I get the letters that are written to me, I don't think I've had three letters in the last year or anything from shareholders. And our vote on this, as you'll see later, is that overwhelmingly the people that bought Berkshire with their own money voted against those propositions. Most of the votes for it came from people who've never put a dime of their own money into Berkshire. And so I don't think they've read our annual reports, and I don't think they read the reports of Berkshire Hathaway Energy. And I don't think they know, if I talk about what we're doing in high voltage transmission, we're doing more than any company in the

country. The president talked about what the government's going to do and how important that is.

We have a record that overall is incredibly good, but we have a group of organizations just generally, and they're nice people, but they want us to answer a bunch of questionnaires their way. So they want us to go to Dairy Queen and Borsheims, and all those people, have them fill out reports that show a bunch of figures, when the reports that count are the reports that Greg gets on Berkshire Hathaway Energy and the railroad. And they talk about three of our companies and you've covered 95% of it. And it's asinine, frankly, in my view. Now we do some other asinine things because we're required to do them. So, we'll do whatever's required, but to have the people at Business Wire, Dairy Queen, all these places, filling out reports to make it some common report that comes in. We don't do that stuff at Berkshire. During the pandemic, we probably have about 12 people who come into headquarters and we've got 360,000 people working in a company, all kinds of diverse activities, and it's built, I don't want to get into the whole thing, but it's built on autonomy. And I am probably the only CEO of an S&P 500 company that does not get a consolidated income statement every month. Every other company, I'll bet, in the S&P 500, prints out the earnings they had at the end of February and March and the CEO gets it and a whole bunch of other people get it.

I don't get it. I don't need it. And I could put six years, 70 companies, to a whole lot of trouble and everything, and they'd hand me something and I know the answer to it already, and it doesn't make any difference. They've got the money they need. And so we don't do things just because we've got a department of this or a department of that. And we don't want to set up a lot of departments like that. And what's important is what we're doing in, well, primarily at Berkshire Hathaway Energy and the railroad. I'll let Greg tell you about that in just one second.

Charlie Munger: I don't think we think we know the answer to all these questions about global warming and so forth. And the people who ask the questions think they know the answers. We're just more modest.

Warren Buffett: Well, but even if we knew the answer, in terms of what reports we would get, we would not collect a whole lot of things that don't mean anything to us to satisfy people who actually don't own any stock themselves, and in many cases, I can tell, they haven't read our annual report, either. We, as I pointed out in the annual report, and nobody would have guessed that, people think we're a bunch of guys that own stocks and all that sort of thing.

Berkshire Hathaway owns, by GAAP accounting, more property, plant equipment, business infrastructure, which the President just got through talking about Wednesday night, infrastructure, the importance of it, we have, measured by GAAP accounting more than any other company in the United States. We have more than any of those companies that are on the list of the largest companies in the country, and we've got it by a substantial margin. So we have an investment in what makes this country move and work. 15% of the interstate goods move on our railroad, and we're building the transmission. And we started in 2006 or 2007 planning how we would close coal plants, but you can't close coal plants until you get the electricity from where it's generated to the customer. And if you're going to generate it in Wyoming, and it's going to go to Las Vegas or someplace, and previously they had a coal plant near the place, because that was the way it was done 50 years ago,

or 75 years ago, you'd better have the transmission. There's no sense having the wind blow in Wyoming, and people can't turn on the lights in Las Vegas.

So we went after the transmission plan question a lot earlier than they were talking about it, and we said 16 billion, or whatever it was in the annual report, that was underway, and we just added 2 billion since the annual report came out. And there's no utility in the country that's coming close to that. Tell them a little bit about it.

Greg Abel: Sure, Warren. Thank you. And really, as Warren touched on, BHE and BNSF have the significant carbon footprints when you think of Berkshire. Warren, you touched on the disclosure that we've provided in the past, going all the way back to 2007. I did pull those two investor presentations, one from 2007 and then our most recent one in 2021. So if we could pull up BHE one as a slide, I think it would just highlight, going all the way back to 2007, we've been doing investor presentations for what we call our fixed income investors, and we've done every year through 2021. We've provided very similar disclosures to our board on an annual basis, and had discussions around Berkshire Hathaway's energy plans to decarbonize.

Now it's interesting, if you go back to the 2007 fixed income conference, and we were having a conference at that point in time, we have third-party debt, capital debt that our utilities raise. It's a traditional capital structure used across our regulated entities to manage our total cost to the customer. So we have investors, we present to them, as we're highlighting, on an annual basis. And if you go back to that 2007 investor conference, it's interesting. In that presentation we're highlighting climate change, that it's a fundamental risk, and we discussed what good policy would be. We discussed innovation, we discussed market transformation, and the importance of setting targets at that point in time. And we had recommendations for our industry.

Since then, each year we've presented really a plan and a strategy around how each of our businesses in BHE, but each of our regulated entities, how they're going to transform. And the whole transformation has been around decarbonization, managing that risk on behalf of our stakeholders, in our many states, our customers that we serve, and ultimately managing that risk for Berkshire Hathaway's shareholders.

Now, as you go through those presentations, there's a common theme, and Warren touched on it already. You have to build the foundation first, and that foundation is around building the high voltage transmission system. Warren touched on it in his annual report this year, in the letter he highlighted that at **Berkshire Hathaway Energy, we'll be spending, just in the west, \$18 billion on transmission. 5 billion of that's already been spent, as we sit here today. And that 13 billion will be spent over the next 10 years. That's the foundation that then allows us to build incremental, renewable resources and move it to our many states that we serve at Berkshire Hathaway Energy, and well beyond that.**

I would highlight, while we've been building the transmission infrastructure in place, we have been building renewables. If you look at our investment through the end of 2020, we've invested \$30 billion, or in excess of \$30 billion into renewables, and have really completely changed the way our businesses do business, i.e., our utility businesses. They've been decarbonizing and delivering a valued product to our stakeholders, to our customers.

I think the results are really amazing, when you look at them, and I'll give you a couple of reference points. If you go back to 2015, when the US was discussing joining the Paris Agreement, very specific targets were set. Prior to those targets being set, Berkshire Hathaway Energy and 12 other companies, including the Apples of the world, Google, Walmart, committed to Paris, and that targets needed to be set. Berkshire Hathaway Energy was one of those companies in 2015.

Warren Buffett: Yeah. How many other utilities were there?

Greg Abel: Right, when there were no other energy companies that made any type of commitment at that point in time, I'm happy to report we made a variety of pledges. **Well, one of them was, at that point, we'd invested \$15 billion in renewables and that we would commit 30 billion in total. Well, we far exceeded that total now. So there's been a clear commitment to reduce, decarbonizing our businesses. We have focused on very identifiable, quantifiable outcomes. And I think that's very important.**

If you look at the standards that were set with the original US government's commitments associated with the Paris Agreement, the target was a 26 to 28% reduction in carbon footprints, going back to 2005. So, that's the reduction period, through 2025. And they wanted the 26 to 28% reduction level. We committed to that at BHE, and I'm happy to report, Warren, and, we've briefed our board, we achieved that in 2020. So we met our pledge and we met the commitment under the Paris Agreement. Then, if you fast forward to the discussions that are occurring right now, or have occurred, around rejoining the Paris agreement, **the current administration has proposed that, again, using 2005 as a starting point, that the emission goals for reduction should be 50 to 52% by 2030. Again, I'm happy to report to our shareholders, and briefings we've provided to our board, but Berkshire Hathaway Energy will achieve that by 2030. Our reductions will hit the Paris agreement target.**

Again, the reason we can do it is we've built the foundation through transmission, the substantial investment that Warren's highlighted, and then followed that up with very specific investments on the renewable side. I have one incremental slide that I hope pulls it all together, and that's BHE 2, because as people discuss carbon, they often go to coal units. How many you own, how many have you closed? And there's no question that can be an important metric, but it is a transition. And we have very much focused across the three utilities we own, and the ones we've highlighted on the slide, is to transition from our existing fleet to renewables using transmission.

We have not become overly dependent on transitioning to gas, that's been a clear strategy. So over a period of time, our coal units will retire. I'm pleased to report to our shareholders that, through 2020, we've closed 16 units to date. If you look at from 2021 through 2030, there'll be an incremental 16 units closed, and then if you go through to the end of 2049, our remaining 14 units will be closed. And at that point in time, all our coal units are closed. That slide is just an aggregation of all the activities each of our business units have been taking to help facilitate that transition, and really transitioning to decarbonizing those units. And I said decarbonizing our businesses on behalf of, first and foremost our customers, the many stakeholders they represent in the various states, and then, equally important, decarbonizing those businesses on behalf of our Berkshire Hathaway shareholders. The only other thing I would add, because it is the entity that has the second largest carbon

footprint in Berkshire, and when you combine BNSF and BHE, you're talking the material set of emissions within Berkshire.

BNSF has also been very active in managing their carbon profile. They've committed to have science-based targets established for 2030. So, again, those targets will again be consistent with the Paris Agreement. We've seen what the other participants or some of them in the industry that have committed to, and our commitment will be very similar, i.e., it will be consistent with the Paris Agreement, but it'll be a 30% reduction in BNSF's footprint by 2030. And that's been publicly disclosed. That's on the BNSF website. Everything I've discussed regarding BHE is on their website, filed in 8-Ks, completely accessible by our many shareholders. So when I look at it from the perspective of our Berkshire shareholders, I really believe this risk is being well-managed, and we are positioning ourselves for the long-term. Thanks, Warren.

Warren Buffett: Yeah, incidentally, the President the other night talked about 100 billion for infrastructure. We'd love to spend 100 billion, but he was talking about... Transmission is really the problem, a big problem, because you've got to get from where the sun is shining and where the wind is blowing, essentially, to concentrations of population, and whether... You cross state lines and you'll go through people's backyards. Whether the federal government has better luck in just saying, "this is the way it's going to be done," and ramming it down the throats of where they go and getting it done. They may have that power and they'll be able to do it faster than we are. On the other hand, we'd love to do it. We'll spend 100 billion, but the speed at which we can do it... We bought Pacific Corp in 2006 and we had a bunch of customers out in the far West and they had coal plants serving them. And to change that you've got to be able to go to where the wind blows and deliver it.

But it is interesting. We have published this information. **We spent far more than any utility in terms of renewables and transmission in the United States.** And we started with nothing, a little operation, but the people who bought the stock with their own money, the individuals, they seem to understand it, and they read the reports. And we get calls, they say, "Well, we want to come out and talk to you about it." Well, we're not talking to them and ignoring the million people that have been with us over time and bought it with their own money. We will not give special treatment either to analysts or to institutions over the individuals that basically trust us with their savings for their lifetime.

INSURANCE RISKS

Becky Quick: This question is for Warren and Ajit, it comes from Fernando Lewis, a longtime Berkshire shareholder from Panama, who says, "As a shareholder that intends to remain so for many decades, my biggest concern is around possible losses, arising from higher than expected insurance losses. We've seen this in other great companies, where underwriting mistakes end up crippling businesses previously considered exemplary. While I understand that Berkshire's culture is unique and the insurance division is full of talented individuals, this is a risk that concerns me. Many of us shareholders feel comfortable, now, given the privilege of having Mr. Buffet, Mr. Munger, and Mr. Jain looking at these deals.

However, there will be a day when this is no longer the case. Is it reasonable to think that over the long-term Berkshire should focus on plain vanilla short tail insurance businesses like GEICO, and reduce the size of some long tail risk. I want to clarify that I have the most

respect and gratitude for all of Berkshire employees that have built the best insurance group in the world. I'm confident we have this talent to remain leaders in this field for decades to come. This has focused on the inherent opaqueness and risk of some insurance lines."

Warren Buffett: Ajit, do you want to lead off or-

Ajit Jain: I mean, clearly contract certainty is an issue for us in the insurance industry. It is an issue that cuts across not only the long tail lines that you mentioned, but even short tail property focused lines. The most recent example is business interruption, which is an integral part of any property insurance policy that is bought and sold by corporations.

It is a risk every time we issue a contract that either because of sloppiness, in terms of how that contract is written, or because of the regulatory environment we all have to live in, that the words in the contract may be tortured, too. And normally when they are tortured, they ended up going against the insurance industry, not in their favor. So it is a risk, it's an unknown risk, in terms of how bad it can be. I hope we price for it, when we price for the product, we throw in something for the unknown unknowns, if you will. And we try and aggregate our exposures by major risks categories. Hopefully, that'll give us some comfort in terms of having some boundaries on what the exposure really can be.

But there's no question, the regulators play a very important role in terms of the economics of the business, especially in the US, where there are 50 state regulators who we have to deal with in terms of pricing, in terms of contracts, in terms of what we-

Warren Buffett: **Most of the surprises in insurance, practically all of them, are unpleasant.** I mean, you get the premium upfront that's pleasant, and then from there on you get some very imaginative losses that come through, and you get some that you've taken on. We are willing to lose, in terms of sort of the outside limit, we think, we're willing to lose \$10 billion in a single event. And we want to get paid very appropriately for that, but we've got the resources to do it. But we don't want to lose 10 billion in something where we only thought we could lose 50 million or something like that. And the current situation, for example, with the Boy Scouts of America, I think there were 1100 claims or something like that that had been filed, and now 17,000 just in-

Ajit Jain: No, no, they're close to 100,000 now, up by 50 times.

Warren Buffett: And these go back to 1950 or 1960, and you've got people advertising for claims. And so all of a sudden you get a lot of claims. I'm sure a lot of the claims are valid. I'm sure a lot of them are invalid, and how in the world do you pick out the difference.

Ajit Jain: It goes back to the issue that you just raised. The reason why this number of claims has skyrocketed from less than 2000 to close to 100,000 is because the statute of limitations had expired. But in several states, if not in most states, they have unilaterally extended the deadline by when you can make claims, and expanded it by a few years, as a result of which a lot more claims have appeared, funded by plaintiff lawyers who are now very well-funded, and that results in claims just skyrocketing.

Warren Buffett: Yeah. You get a lot of unpleasant surprises in insurance, but I'm very biased on this, but I think **we've got the best insurance operation in the world.** And Ajit

is the guy that created it. And the people at GEICO, we bought that, and they've done a wonderful thing over time to contribute their part of it, too, and other people have, but Ajit is the symphony conductor of it.

COSTCO AND WELLS FARGO

Becky Quick: This question comes from Henry Zu, and he says, "It looks like Charlie and Warren have some different opinions, recently, like Costco and Wells Fargo. Where's that taking Berkshire?"

Warren Buffett: Charlie?

Charlie Munger: Well, we're not all that different. And Costco is a company I very much admire, and I've enjoyed my long association with that company, but I love Berkshire, too. And luckily there's no conflict, and **Warren I don't have to agree on every damn little thing we do. We've gotten along pretty well.**

Warren Buffett: We have, better than pretty well. We have never had an argument, really-

Charlie Munger: Yeah.

Warren Buffett: -- in 62 years, and it's not that we agree on everything. We've, literally, in 62 years, we've never gotten mad at each other.

Charlie Munger: No, no.

Warren Buffett: It just doesn't happen.

RELATIONSHIP BETWEEN GREG ABEL AND AJIT JAIN

Becky Quick: This question is from Jason Plonner, and he says, "Mr. Jain and Mr. Abel, this question is for you, "One of the successful features of Berkshire is the strong bond between Mr. Buffett and Mr. Munger, who managed the company better, because they had each other. As you two are clear leaders of the next generation at Berkshire Hathaway, can you please tell us about how you interact with each other or some of the other incredibly competent Berkshire managers you seek for advice?"

Warren Buffett: Who's that directed at?

Becky Quick: Greg and Ajit.

Charlie Munger: Ajit.

Warren Buffett: Okay.

Ajit Jain: Okay. Well, there's no question that the relationship Warren has with Charlie is unique. And it's not going to be duplicated, certainly, not by me and Greg, no. I can't think of very many other pairs that can duplicate it. Nevertheless, both Greg and I, at least certainly from my perspective, and I'm sure Greg will speak for himself, we've known each

other for a very long time. I certainly have a lot of respect, both at a professional level and a personal level, in terms of what Greg's abilities are. We do not interact with each other as often as Warren and Charlie do, but every quarter we will talk to each other about our respective businesses and update each other on our respective businesses.

And then during the course of the quarter, while we may not have any formal sort of meetings, if you will, but every time a question comes up, which is related to insurance, Greg will pick up the phone and call me. By the same token, if there's any question that comes up relating to any of the non-insurance operations that Greg is in charge of, like we had recently where a client of mine was trying to find a buyer, and I picked up the phone and talked to Greg and we talked about how best to proceed. So there's that, that happens during the course of the quarter, every quarter we exchange notes, and we have a perfectly well-functioning relationship between the two of us. And I hope it remains that way, Greg.

Greg Abel: Yes. Well, Ajit, well said, and as he touched on, Warren and Charlie have an exceptional relationship, but I'm very proud of the relationship Ajit and I've had. And as Ajit touched on, it's developed over many years, we've had the opportunity, or I've had the opportunity to see how Ajit runs the insurance business. And as Warren highlights, and Charlie highlights, there's no one better at it, so I've had the opportunity to observe that. And then equally, over the years, that relationship has just built and become greater and greater. And as Ajit touched on, I couldn't have more personal respect for Ajit both personally and professionally. And even though the interaction may be different than, say, how Warren and Charlie do it, as Ajit touched on, there is a regular dialogue, both around opportunities within our two businesses and units, both if we see something unusual that the other individual should hear, we make sure we're always following up with each other. But it goes beyond that, Ajit has a great understanding of the Berkshire culture. I strongly believe I do, too. And anytime we see anything unusual in one of our businesses, it's Ajit who I'm going to call and say, "Are you comfortable that we're taking this approach? Is it going to be consistent with how you think about it? How you think about it in insurance?" **So it goes beyond just discussing the businesses, but maintaining the exceptional culture we have at Berkshire and building upon that.** So I'm very fortunate to have Ajit as a colleague and immensely enjoy working with him every day. Thank you.

GEICO AND BNSF PROFITABILITY

Becky Quick: This question comes from Glen Greenberg, it's on the profitability of GEICO and BNSF. He said, "Why do these companies operate at meaningfully lower profit margins than their main competitors, Progressive and Union Pacific? Can we expect current managements to at least achieve parity?"

Warren Buffett: Was it GEICO and-

Becky Quick: BNSF.

Warren Buffett: Oh, actually, if you look at the first quarter figures, you'll see that the Berkshire Hathaway/Union Pacific comparisons has gotten quite better. Katie Farmer's doing an incredible job at BNSF, and it'd be an interesting question whether five years from now or 10 years from now, BNSF or Union Pacific has the higher earnings. We've had higher earnings in the past, Union Pacific passed us. The first quarter, you can look at and they think they've got a slightly better franchise. We think we've got a slightly better

franchise. We know we're larger than Union Pacific, we will do more business than they do. And we should make a little more money than they do, but we haven't in the last few years. But it's quite a railroad, I feel very good about that.

I should go back to the previous question. People talking about the aging management at Berkshire, and I always assume they're talking about Charlie when they say that. But I would like to point out that in three more years, Charlie will be aging at one percent a year. And no one is aging less than Charlie. If you take some of these new companies with 25-year-olds, they're aging at four percent or so. So we will have the slowest aging management, percentage-wise, by far than any American company has.

Becky Quick: Did you want to talk about GEICO versus Progressive, too, because I got a lot of questions on that?

Warren Buffett: Progressive has had the best operation in recent years, in terms of matching rate to risk, and I mean, that's what insurance is all about among other things. But I mean, you have to have the right rate. If you think that 90-year-olds and 20-year-olds have an equal chance of dying, I mean, you're going to be out of business very quickly, the life insurance business. And you will get all the 90-year-old risks and the other guy will get the 20-year-old risks.

And the same thing applies in auto insurance. I mean, there's a huge difference between 16-year-old males, and how they drive, and 40-year-old married, employed people. So companies that do the best job of actually having the appropriate rate for every one of their policy holders is going to do very well, and Progressive has done a very good job on that. And we're doing a much better job on that already, but Todd Combs has gone there. And it's a very interesting business, both Progressive and GEICO were started in the '30s. I believe I'm right about Progressive on that, and we were started in '36. We have had the better product for a long, long time, I mean, in terms of cost. And here we are 80, 85 years later, in our case, and we have about 13% or so of the market, whatever it may be, and Progressive is just a slight bit less. So the two of us have 25% of the market, roughly, in this huge market, after 80 something years of having a better product. So it's a very slow changing, competitive situation, but Progressive has done a very, very good job recently. We've done a very, very good job over the years, and we're doing a good job now, but we have made some very significant improvements.

And if you looked at, you don't want to look at the quarters too much, but our profitability in the first quarter was good, but we gave back more money under our give back program, when the virus broke out, we gave 2.8 billion on our give back program, that was larger than any company as well. It was the largest, I think, in the country. **And GEICO and Progressive are both going to do very well in the future. And actually, Union Pacific and BNSF are going to do well in the future. It's just, in both cases, we want to do a little bit better than the other guy.**

Ajit Jain: Can I just add a little bit? There's no question, Progressive is a machine. They're very good at what they do, whether it's underwriting, which Warren talked about, in terms of matching rate to risk, whether it's handling claims. Having said that, I think GEICO is catching up with Progressive. More than a year ago, about a year ago, Progressive had margins that were almost twice as much as GEICO's, and growth rates that were almost twice as much as GEICO's. If you look at the results, as of now, Progressive is still

crushing it, in terms of growth, relative to GEICO, but GEICO has certainly caught up with Progressive in terms of margins, and, hopefully, that gap will be non-existent in the future.

The second point I want to make on the issue of matching rate to risk, GEICO had clearly missed the bus, and were late in terms of appreciating the value of telematics. They have woken up to the fact that telematics plays a big role in matching rate to risk. They have a number of initiatives, and, hopefully, they will see the light of day before not too long, and that'll allow them to catch up with their competitors, in terms of the issue of matching rate to risk.

Warren Buffett: I will predict that five years from now, State Farm is still the largest auto insurer, but I will predict that five years from now, it's very likely that the top two will be GEICO and Progressive, and in which order we'll see but both companies are going to do very well, in my opinion. And GEICO's done well extremely well, but Progressive was better at setting the right rate, and we're catching up, I think, fairly fast.

Ajit Jain: Yeah, excuse me, Progressive has certainly done better, but when it comes to branding, GEICO is, I think, miles, excuse me, ahead of Progressive. And in terms of managing expenses as well, I think GEICO does a much better job than anyone else in the industry.

APPLE

Becky Quick: This question comes from Vitorio Agucchi, from Switzerland, who writes in, "Why in the recent past did Berkshire sell some of the common stocks owned on Apple? If the company is considered Berkshire's fourth jewel, why didn't Berkshire buy more of Apple stock in 2020? This seems to be counterintuitive."

Warren Buffett: Well, we have 5.3% or something like that now, it's going up in the first quarter because we bought in our shares, which helps our own shareholders expand their interest in Apple, indirectly, without laying out a penny, and then Apple's repurchased its shares, and just announced another repurchase program. We look at Apple as a business that we own 5.3%. Now we've got... It's a marketable security, so it shows up way greater than any other marketable security we have. But, of course, if you look at our railroad, as we mentioned, well, Union Pacific is selling for about 150 billion in the market. We own one that's larger than the Union Pacific and making it a little

So it's an extraordinarily... **Apple, it's got a fantastic manager. Tim Cook was underappreciated for a while. He's one of the best managers in the world, and I've seen a lot of managers. And he's got a product that people absolutely love. And there's an installed base of people and they get satisfaction rates of 99%.** And I get the figures from the furniture market as to what's being sold, and if people come in and they want an Android phone, they want an Android phone. If they want an Apple phone, you can't sell them the other way. The brand and the product, it's an incredible product. It's a huge bargain to people. I mean, the part it plays in their lives is huge. I use it as a phone, but I'm probably the only guy in the country. Maybe some descendant of Alexander Graham Bell is doing the same thing, but it is indispensable to people.

And it costs... A car costs \$35,000, and I'm sure with some people, if we asked them whether they had to give up their Apple or give up their car, and really make the choice for

the next five years, who knows what they would do? And we got a chance to buy it, **and I sold some stock last year, although our shareholders still had their percentage interest go up, because we repurchase shares. But that was probably a mistake. In fact, Charlie in his usual, low-key way, let me know that.** You thought it was a mistake too, didn't you, Charlie?

Charlie Munger: Yes.

Warren Buffett: Yeah. I could only do so many things that I can get away with. Charlie and I kind of used them up between Costco and Apple. And he very likely was right, in both circumstances. It's an extraordinary business, but I do want to emphasize that in his own way, it's a different way, but Tim Cook is...we see a lot of managers of a lot of businesses, and you're looking at two great ones on both ends here. He's handled that business so well, he couldn't do what Steve Jobs, obviously, could do in terms of creation, but Steve Jobs couldn't, really, I don't think, do what Tim Cook has done in many respects.

Charlie Munger: Well, I also think it's clear that that list you showed of the leading American companies, it's been very important for America that we've done so well in this new tech field. And I, personally, would not like to see our present giants brought down to some low level by some anti-competitive reasonings. I don't think they're doing a lot of harm anti-competitively. I think they're a credit to the Americans, a credit to our civilization.

Warren Buffett: And they're huge.

Charlie Munger: And they're huge, and that's good for us.

VALUATION OF TECH STOCKS

Becky Quick: Well, let me ask a follow-up question on that then, this comes from Jack Sang, who says, what's your mindset, when you see so many of these highflyers, not the GME or meme stocks, but more like the big tech growth stocks gaining 50%, 100%, 200%, et cetera, in a matter of a year or less? I know you eventually bought Apple in 2016, because of the quality of their businesses and their management. How do you assess if these highflyers are worthy of your investment, given these crazy high valuations that muddy the waters?"

Warren Buffett: Well, **we don't think they're crazy.** But we don't... at least I... Charlie and I feel that I understand Apple and its future with consumers around the world better than I understand some of the others, but I don't regard prices, and that gets back, well, it gets back to something fundamental in investments, I mean, **interest rates, basically, are to the value of assets, what gravity is to matter, essentially.** And on the way out here, I tore out a little clipping from the Wall Street Journal yesterday, I'm probably the only one that read, it's so small and having trouble finding it. But anyway, on Thursday, the US treasury sold some four week notes, treasury bills, and the price was in, if you looked at your Wall Street Journal down in a little corner next to last page in my paper, in the very bottom corner, here it is, the results of the treasury auction, a little tiny thing.

They had applications on the four-week treasury bill for 100 and some billion. They accepted bids for 43 billion worth. And it says average price. Okay. 100.000000, six zeros. And essentially, people were giving 40 some billion dollars to the registry, and they offered

to give 130 billion or something, whatever the amount tender, and the treasury received the money at zero. And Janet Yellen has talked a couple of times about the reduced carrying cost of the debt. I think in the last fiscal quarter, US government, which owes a few billion, a few trillion dollars, I should say, few trillion dollars more than a year ago, their interest expense was down eight percent. So, **you've had this incredible reduction in the so-called super risk-free group, the short-term treasury bill, and that is the yardstick against which other values are measured.**

Warren Buffett: I mean, if I could reduce gravity, its pull by about 80%, I mean, I'd be in the Tokyo Olympics jumping. And essentially, if interest rates were 10%, valuations are much higher. So, **you've had this incredible change in the valuation of everything that produces money, because the risk-free rate produces, really short enough right now, nothing.** It's very interesting. I brought this book along, because for 25 or more years, Paul Samuelson's book was the definitive book on economics. It was taught in every school and Paul was... he was the first Nobel prize winner. It's sort of a cousin to the Nobel prize, they started giving it in economics, I think, in the late '60s, he was the first winner from the United States, Paul Samuelson. Amazingly enough, the second winner was Ken Arrow, and both of them are the uncles of Larry Summers. Larry Summers had the first two winners as uncles.

But Paul, he was a wonderful guy. He was a wonderful writer, the definitive writer. And so, I got out the '73 economics books. And bear in mind, probably economics kind of started as kind of an interesting science and respectable, with Adam Smith we'll say. He wrote The Wealth of Nations in 1776, and he'd written some books earlier, but you sort of date from kind of when our countries started. And then you had all these famous economists, subsequently, and Paul became the most famous of his time. So, I looked up in the back under interest rates. I looked for negative interest rates. There's nothing there. So, I finally found zero interest rates, and Paul Samuelson, brilliant man, after a couple of hundred years, we've had of kind of studying economics, basically. He said, "You can conceive perhaps of negative interest rates, but it can't ever really happen." And that was in the 1970s, this wasn't back in the dark ages. And no economist wrote up and said, "This is a terrible line to have in a book," or anything. And here we are in this world where we had zero interest rates last year, I mean, last week on or this week, on a four-week note, and Berkshire Hathaway, which has more than this, but let's say we had \$100 billion in treasury bills, we have more than that. Before the pandemic, we were getting about a billion and a half from that a year. At present rates, if it's two basis points, we'd get 20 million. Imagine your wages going from \$15 an hour to 20 cents an hour, so it's been a sea change. And it was designed to be that.

I mean, that's why the Fed moved the way they did. They wanted to give a massive push, just like Mario Draghi did in Europe, in, whenever it was, 2012, when he says, "Whatever it takes," and they want the negative rates. And the Fed has said, it doesn't want to go the negative rates, and I think the Treasury actually has got some small bar. **But if present rates were destined to be appropriate, if the 10 years should really be at the price it is, those companies that the fellow mentioned in this question, they're a bargain. I mean, they have the ability to deliver cash at a rate that's, if you discounted back and you're discounting at present interest rates, stocks are very, very cheap. Now, the question is what interest rates do over time. But there's a view of what interest rates will be based in the yield curve out to 30 years and so on.**

It's a fascinating time. We've never really seen what shoveling money in on the basis that we're doing it on a fiscal basis, while following a monetary policy of something close to zero interest rates, and it is enormously pleasant. But in economics, there's one thing always to remember, you can never do one thing, you always have to say, "And then what?" And we are sending out huge sums, I mean, the President said it on Wednesday, 85% of the people, were going to get a \$1,400 check or... 85%. And a couple of years ago, we were saying 40% of the people never could come up with \$400 of cash. So, we've got 85% of the people getting those sums, and so far, we've had no unpleasant consequences from it. I mean, people feel better. The people who got the money feel better, and the people are lending money don't feel very good, but it causes stocks to go up. It causes business to flourish. It causes an electorate to be happy, and we'll see if it causes anything else. And if it doesn't cause anything else, you can count on it continuing in a very big way. But **there are consequences to everything in economics**. That is why the Googles and the Apples, but we don't have a Microsoft, but they are incredible companies, in terms of what they earn on capital. They don't require a lot of capital, and they gush out more money. And if you're trying to find bonds that gush out more money from the federal government, we got a 100 billion that's gushing out like \$30 or \$40 million a year, or whatever it may be depending on the short term rates.

So that puts the pressure on, which is exactly, of course, what the monetary authorities want done. I mean, they're pushing the economy in a... and they're doing it in Europe, even more extreme, and they're pushing, and we're aiding it with fiscal policy, and people feel good and people will become numb to numbers. Trillions don't mean anything to anybody, and \$1,400 does mean something to them. So, we'll see where it all leads, but Charlie and I consider it the most interesting movie by far we've ever seen in terms of economics, don't we, Charlie?

Charlie Munger: Yes, and the professional economists, of course, have been very surprised by what's happened. It reminds me of what Churchill said about Clement Attlee. He said, "He was a very modest man and had a great deal to be modest about," and that's exactly what's happened with the professional economists. They were so confident about everything, and it turns out the world is more complicated than they thought.

MODERN MONETARY THEORY

Becky Quick: As a follow-up to that, Pat Kane is asking, what's your opinion about the economic theory MMT, especially the United States because it's the reserve currency for the world?

Charlie Munger: **Well, I think the modern monetary theorists are more confident than they ought to be, too. I don't think we, any of us know what's going to happen with this stuff. I do think there's a good chance that this extreme conduct is more feasible than everybody thought. But I do know if you keep just doing it without any limit, it will end in disaster**

VALUE OF FLOAT

Becky Quick: On a related question, Elle Kandel wrote in on this, too, and said, if you can borrow money at a guaranteed lower even zero interest rate, is it still worthy of borrowing money for not that guaranteed cost from the insurance operation.

Warren Buffett: It reduces the value of float by a substantial amount. And we have a flexibility with our float that virtually no one has, and I've written about this in the annual letter. But the value of float has gone down dramatically because everything is off of interest rates. And when you get to negative interest rates, if a country can borrow at negative interest rates, you get into something, that's kind of akin to the St. Petersburg Paradox. And those of you who want to go search you can find some interesting things on it, but it becomes infinite. And it's a crazy consequence of a bunch of abstract mathematics where you get there.

But, you lose gravity entirely, and if you tell me that I'm going to have to lend money to the government at minus 2% a year, and I'm talking nominal figures, not... You're just telling me how I'll go broke over time, if I do that. So, it pushes you to do other things, and of course, we've seen it. Well, we saw the rest of the world do it in even more extreme fashion, but nobody... Paul Samuelson, brilliant man, nobody, nobody thought he could do this. And we don't really know what the consequences are, but we know there are consequences, obviously.

SPACS

Becky Quick: This question comes from Sam Butler, who says he's been a shareholder for many years and asks, **what impact does the rise of so many new SPACs have on Berkshire's ability to find and close new acquisitions?**

Warren Buffett: Well, **it's a killer**. These SPACs generally have to spend their money in two years as I understand it. So, they have to buy a business in two years. If you put a gun to my head and said, you've got to buy a big business in two years and I'd buy one, but it wouldn't be much of one, we'd look and look, and now there are, I don't know how many, whether it's hundreds...there's always been the pressure from private equity funds. I mean, if you're running money for somebody else, and you're getting paid a fee, and you get the upside and you don't have the downside, you're going to buy something.

And I could tell you about -- I had a very famous, I had a call from a very famous figure many years ago that was involved in it and wanted to learn about re-insurance. And I said, "Well, I don't really think it's a very good business." And he said, "Yeah," and he says, "If I don't spend this money in six months, I've got to give it back to the investors." So, it's a different equation that you have if you're working with other people's money, where you get the upside and you have to give it back to them if you don't do something. Frankly, we're not competitive with that. No, that won't go on forever, but it's where the money is now, and Wall Street goes where the money is and it does anything basically that works. And SPACs have been working for a while. You stick a famous name on it, you can sell almost anything. And it's an exaggerated version of what we've seen in, in kind of...Well, gambling done type market.

In fact, I did have a quote from Keynes that we might put up on -- let's see if I've got... Yeah, this is probably one of the most famous quotes in history, because it really sums up the problem of the fact we've got the greatest markets the world could ever imagine. I mean, imagine being able to own parts of the biggest businesses in the world and putting billions of dollars in them and take it out two days later. I mean, compared to farms or apartment houses or office buildings, where it takes months to close a deal, the markets offer a chance to participate in earning assets on a basis that's a very, very low cost and

instantaneous, huge, all kinds of good things, but it makes it real money if they can get the gamblers to come in because they provide more action and they're willing to pay sillier fees and all kinds of things.

So you have this incredible, huge asset to humanity, but it really makes its money when people are doing stupid things. I mean, that's where the money really is. And Keynes wrote this in 1936, it says 1939 on the slide. But he wrote in 1936 in the general theory, that **"Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital of element of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done."**

Well, **the stock market, we've had a lot of people in the casino in the last year. You have millions and billions of people who've set up accounts where they day trade,** where they're selling... Put some calls, where they, I would say that you had the greatest increase in the number of gamblers essentially. And there's nothing wrong with gambling and they got better odds than they've got if they play the state lottery, but they have cash in their pocket. They've had action. And they actually don't have a lot of good results. And if they just bought stocks, they'd do fine and hold them.

But the gambling impulse is very strong in people worldwide, and occasionally it gets an enormous shove and conditions lead to this place where more people are entering the casino than are leaving every day, and that creates its own reality for a while. And nobody tells you when the clock is going to strike 12:00, and it all turns to pumpkins and mice. But when the competition is playing with other people's money, or if they're playing foolishly with their own money, but the big stuff is done with other people's money, they're going to beat us. I mean, we're not... that's a different game and they've got a lot of money, so **we're not going to have much luck on acquisitions while this sort of a period continues. But it's happened before. This is about as extreme as we've seen it.** Isn't it, Charlie?

Charlie Munger: Yes, of course, **I call it fee driven buying. In other words, it's not buying because it's a good investment.** They're buying it because the advisor gets a fee, and of course the more that you get, the sillier your civilization is getting, and to some extent, it's a moral failing, too, because the easy money made by things like SPACs and returned derivatives and so on, and so on. **You push that to excess, it causes horrible problems with the civilization and reflects no credit on the people who are doing it, and no credit on the regulators and voters that allow it. So, I think we have a lot to be ashamed of of the current conditions.**

Warren Buffett: But it's where the money is.

Charlie Munger: Yeah, but we still... It's shameful, what's going on. Yeah. It's not just stupid, but it's shameful.

Warren Buffett: It's not, I don't regard it as shameful on a lot of the people that gamble. I mean, gambling is a very human instinct and they've got money in their pocket and they know somebody else has made money who they don't think is any smarter than they are...

Charlie Munger: No, no, I don't mind the poor fish that gamble. I don't like the professionals that take the suckers.

WAITING FOR FAIR VALUATIONS

Becky Quick: All right. Moshi Levine writes in, he's an American living in Israel. He says, if you deem stock prices to be overvalued or in a bubble, do you think it's best to keep your money in cash while waiting for prices to come down to a fair price? Or would it be a better idea to invest this money in some way, while waiting until stock prices are fair again, and then sell the investment to buy the stocks?

Warren Buffett: Well, Charlie and I have had that discussion on a lot of things there. We bought some stocks that we really don't know that much about, but I'm not really comfortable doing that.

Charlie Munger: We're used to shooting fish in a barrel, but that's gotten harder.

Warren Buffett: **We've got probably 10 to 15% of our total assets in cash beyond what I would like to have just as a way of protecting the owners and the people that are our partners from ever having us ever get in a pickle.** You know, we really run Berkshire and make sure that we don't want to lose other people's money who stick with us for years. We can't help somebody who buys it today and sells it tomorrow. But we've got a real gene that pushes us in that direction, but we've got more than we... **We've got probably 70 or 80 billion, something like that, maybe that we'd love to put to work, but that's 10% of our assets, roughly. And we probably won't get a chance to do it under these conditions, but conditions change very, very, very rapidly sometimes in markets.**

And we do have people that would like to join us, but the market option they have is just too great for them. If they're publicly traded, I mean, they basically can't, they would have great difficulty, well, then making a deal with us because somebody else would come along with using other people's money. We may be unhappy about the 70 billion, but we're very happy about the other \$700 billion, so it's not like we should complain.

Becky Quick: Warren, when we spoke before the annual meeting, you said that it was okay if I asked a follow-up or two, and I'd like to make one of those right now, you said you bought some stocks that you don't know a lot about, what are they?

Warren Buffett: Well, I will not get into naming what stocks -- it may be that there's something there that I think I know about that I don't know about, but we've bought stocks where Charlie and I-- I mean, we know the business generally, but we don't have any insights. And they are as a group, if you told me I was going to be shot unless I got the best result, I would rather own those stocks than the treasury bills we own. But on the other hand, we work with the quantities of money where if we put \$50 billion into things that I'm kind of so, so about, but that are better than treasury bills, I'm not wildly comfortable about that even though it can be undone.

That's selling 50 billion when it's really attractive to buy something else. There's a lot of slippage that can happen in moving sums like that around. So that's something we talk

about all the time. They're good companies, they're fine companies, but do we know something about those companies or have a way of evaluating that gives us an edge, the answer. What do you feel about it, Charlie? We've talked about it a lot.

Charlie Munger: Well, of course it's a lot harder. And I think one consequence of the present situation is that Bernie Sanders has basically won. And that's because with everything boomed up so high and interest rates so low, what's going to happen is the millennial generation is going to have a hell of a time getting rich compared to our generation. And so the difference between the rich and the poor and the generation that's rising is going to be a lot less. So, Bernie has won. He did it by accident, but he won.

PART II

SHARE REPURCHASES

Becky Quick: All right. This question comes from Danny Poland, a shareholder from Pittsburgh. A prominent Senator recently categorized share buybacks as a form of market manipulation. You've often said that repurchasing shares at prices below intrinsic value benefits continuing shareholders, could you and Charlie, please elaborate on the higher order effect that these share repurchases have on society?

Warren Buffett: Yeah, **they're a way essentially of distributing cash to the people that want the cash when other co-owners mostly want you to re-invest**, and it's a savings vehicle. If the four of us sitting at this table decided we'd buy a few Dairy Queen franchises, we formed a little company and we all put in a million dollars or something like that, and we buy the Dairy Queen franchises and they're doing well. And three of the four of us want to keep buying more Dairy Queen franchises, and we're not done building and saving for the future. And we're in the wealth creation business. And the fourth one says, "Listen, I've gotten rich enough. I'd rather take some money out. Well, there's only two ways to do it. We can pay dividends, all four of us, three of us of whom don't want it. And, and we can repurchase the shares at a fair price. If it was just the four of us, we pick out a fair price and the fourth one gets bought out of his interest.

I find it almost impossible to believe some of the arguments that are made that it's terrible to repurchase shares from a partner if they want to get out of something and you're able to do it at a price that's advantageous to the people that are staying, and it helps slightly the person that wants out. And a majority of the Berkshire shareholders, a great majority, we had to vote on dividends one time, we've got savers. Now that's partly because we've advertised ourselves as being that sort of a vehicle. We've created that something, we've stuck with it for 57 years, and people, individuals, a huge number, look at Berkshire as something they're going to own until they die and now their circumstances may change, their needs may change, but the savers generally keep saving.

We've just recently had somebody that a father came with us 60 years ago and billions of dollars. And they just weren't saving exactly for their old age. It just was sort of built into them that they liked to do it, now philanthropies will get got a lot of money and so on. It's the most, what could be more logical than if a very small minority of your holders want to get out and most of them want to stay in and the person wants to get out, wants the money, you don't give the money to everybody, you give it to the one who wants it. And you do it at a price that is beneficial to most parties, on a private deal, you'd work out the fair value.

The market tells you the value in the case of a publicly traded company. Charlie, got anything?

Charlie Munger: **Well, if you're repurchasing stock, just to bull it higher, it's deeply immoral, but if you're repurchasing stock because it's a fair thing to do in the interest of your existing shareholders, it's a highly moral act, and the people who are criticizing it are bonkers.**

DIVIDENDS VS SHARE REPURCHASES

Becky Quick: Okay. This comes from Gary Gambino. He wants to know if Berkshire would switch its capital return policy to dividends from buybacks. If the capital gains rate goes up to 43.4%, dividends would be far more tax advantaged for shareholders under that scenario.

Warren Buffett: Yeah, we literally did have a vote by our shareholders. Now we've got a different group of shareholders than a REIT would have, or an MLP might have. I mean, there's different... People select what they go into and people that go into SPACs are hoping the stock goes up next week, I mean basically, and we've got a bunch of people that were assembled over 55 years. But they started with a base of people that it was a lifetime investment. And if they wanted to cash out, they thought they'd get a fair price at that time. But they really didn't, they bought it with no intentions like that. So, **we had a vote, and it was something like 97% or something of the shareholders said that they don't want a dividend.** And now that wouldn't be true at other companies and it'd be crazy to be paying a regular dividend like Coca-Cola has done for many years, and then all of a sudden change the policy on millions of people who have bought it with one expectation in mind and try and change it into a different animal. But Coca Cola isn't going to change to Berkshire and Berkshire isn't going to change to Coca-Cola. We've got a different group of owners and it will keep self-selecting because people have a choice every day. Which sort of thing do you want to be in? And Berkshire is a certain kind of animal in that respect. So we will not – if they jig around the tax laws -- that's really got nothing to do with the decision. I mean, **we've got a very substantial majority of people that want us to reinvest the money. And what they're more concerned about is whether we find something to do with the money, the hundred billion or something, and repurchasing shares is something that helps them in their... they own a larger percentage of Berkshire as they go along. And they would love to see us buy another business, but they don't mind us intensifying their interest in the present business.**

TAX INCREASES

Becky Quick: You've got a lot of questions that came in on taxes. So I'll run through a few of them. We'll see kind of how many you answered before we get to them? But this one came from Arthur Lewis in Denver. What are your thoughts on the new administration's capital gains, corporate tax, and stepped up basis tax increases?

Warren Buffett: Well, if Charlie wants to answer that, I'll be glad to have him do it. I, long ago, many times said that I don't put my political opinions or anything in a blind trust when I take this job, but I also don't speak for Berkshire Hathaway. I mean, we've got people that have very different views on taxes and I've expressed some things in the past. I don't like to speak on behalf of, when I'm sitting at a Berkshire Hathaway annual meeting, presumably speaking for Berkshire, I don't really like get into political questions generally. I

don't really think I should, but I also think if somebody asked me who I voted for in the last election, in a personal way, I voted for Biden. But I've never asked a single employee of ours who they voted for, anything of the sort, what religion. I am not authorized to go around signing my name as chairman of Berkshire Hathaway – I do to proposals. If I write op ed pieces, I do it as an individual, I try and make it clear. So I don't think -- I don't want to use the meeting to give a lot of views on taxes. Charlie.

Charlie Munger: No, but I think it's probably a mistake to be basically anti-capitalism. I think capitalism is what raises GDP for everybody. And I have also a feeling that Benjamin Franklin was right when he said that it's hard for an empty sack to stand upright, and to some extent, the prosperity of leading American institutions helps them behave better. Now, there are exceptions in promotional financing but by and large Franklin was right. And so I'm a little wary of just constantly getting mad at people because they have a little more money.

Becky Quick: Charlie, there was a question that came in specifically to you on the tax issue. Over the years, and with emphasis in 2020, we've heard people leaving California for various reasons, such as high cost of living, high taxes, et cetera. I understand that you believe it's dumb for states to have policies and laws that provoke rich residents leaving, but what are your thoughts on those people leaving? What keeps you in California?

Charlie Munger: Well, that's a very interesting question. I frequently said that I wouldn't move across the street to save my children 500 million in taxes and that's my personal view of the subject, but I do think it is stupid for states to drive out their wealthiest citizens, the old people that don't commit any crimes, they donate to the local charity. Who in the hell in their right mind would drive out the rich people? I mean, Florida and places like that are very shrewd and places like California are being very stupid. It's contrary to the interest of the state.

Becky Quick: One more question for you, Jack Robbins asks, **how will a 25 to 28% corporate tax rate affect Berkshire's companies?**

Charlie Munger: Well, I don't think it would be the end of the world. We will adapt to the tax rate, whatever it is.

Warren Buffett: Yeah. I would say that if they raise the tax rate, the federal government's owning a larger percentage of the business. But I'm not saying what the tax rate is, but we have a class A stock and a class B stock. The US government owns what I call the class AA stock, that's a very special stock. They get a percentage of the earnings, but they don't own the assets and they don't vote on who gets to run the place or anything else. But if the government wants to take... When I was first starting, they used to take 52%, the federal government did, of corporate profits and they've got-- what would you pay to own the government's class AA stock? If there was a public issue by the US Treasury and they said, this vehicle – Give it a name like SPAC or something, even sexier, but... And all it will do is it owns the future tax payments of Berkshire Hathaway forever?

And how much is that stock now worth? And it'll pay a big cash dividend and they'll go up as we retain earnings and build the company and everything else. It's worth more if the tax rate is 25% or 28% or 52% than at 21%. They own a special stock, and when people talk about how it all gets passed through to the customer and everything -- in the utility business, that actually does, that's a special case, but it doesn't in most of our businesses.

I mean, it's just a corporate fiction. When they put out statements about the fact that this will be terrible for all of you people, we pay more taxes and it hurts the Berkshire shareholders if rates are higher and that may be quite appropriate.

But to say otherwise, it doesn't make any sense. I would love to see the government actually issue, they could set up a company, just call it the Berkshire Hathaway tax company. And it would take all the taxes we paid every year. How much would they be able to sell that asset for? They talk about unfunded obligations of the government. That's an unreported asset of the federal government, but they own part of Berkshire and they get to determine how much, I mean, it's an interesting question.

Becky Quick: One last tax question. This one comes from William Barnard, who says in the owner's manual, a portion of your annual report, Warren, you state, on my death, none of my stock will have to be sold to take care of the cash requests I've made or for taxes. With the recent Biden proposal to treat unrealized gains as sold and taxable at death at a 43.4% rate change the amount of stock required to be sold for payment of taxes upon your death?

Warren Buffett: Yeah, well, the tax laws can be changed tomorrow, and I don't, you know, it can be done a lot of different ways and it's been done a lot of different ways in the past. I can tell you, I can actually make a promise to society that 99.7% of what I have when I die will either go to philanthropy or to the federal government and the federal government can actually determine the rules on that. And, no, I would prefer that it would go to philanthropy. I think it actually will accomplish more utility if it goes to be used by some smart people in philanthropy than if it simply reduces the federal debt by a hundred billion dollars or something when I die. I don't think it makes a damn bit of difference if the federal debt is 100 billion higher or lower. It won't change anything in the world. And at present day, it doesn't really save them anything because they can borrow a hundred billion and it doesn't cost them anything anyway, but that condition won't prevail, but I would not regard it, I'm just talking personally, I'm not advocating this as public policy, but I wouldn't, if they took it all, it would not bother me. I mean it-

Charlie Munger: I guarantee it won't bother you.

Warren Buffett: Yeah, yeah, Charlie says, you won't know. If the American democracy decides that it's better to take it all, which I don't think they will, or I don't think they should, but nevertheless, so what? I would like to see it used to accomplish the most for humanity and that means having smart people properly motivated, and more importantly, I mean not improperly motivated distribute it in a way. And then who knows what the hell it would be 10, 20, 30 or 40 years from now. I do know if it goes to the government, it basically reduces the national debt by that amount. I don't think it changes whether they change the minimum wage laws or anything else. I just think a little figure changes, it'll show up in the budget one day, "Received from Buffet, X," and then some huge figure appears down below. I don't think --I would prefer it be used privately, but that's really up to the people of the United States to decide through their representatives.

PANDEMIC RISK

Becky Quick: This next question is for Agit and it comes from Professor Don Wunsch at the Missouri University of Science and Technology, who says, "Mr. Jain, what has COVID 19 taught us about systemic and correlated risk? And is there anything that we will do differently from now on?"

Ajit Jain: Yeah. In the insurance business, we often think about pandemic risk as one of the risk factors that we need to cope with in our business. Having said that, I think the big lesson for us having gone through what we've gone through recently is that while we were aware of the fact that pandemic risk is a risk factor, it was totally, totally underpriced by all of us in the industry. Several of us thought it's an event that will happen, at most, once in a hundred years, and even then, those odds are pretty high. So I think the big lesson for us is to recalibrate and rethink about what the return time is for something like a pandemic risk. And separately, we haven't yet done a good enough job as an industry, I'm saying in terms of correlating the risk and aggregating the risk and making sure we can deal with the aggregate numbers.

For example, pandemic risk has obviously taken people's lives, but then separately, a bunch of us used to write something called event cancellation or contingency policies, and in terms of pricing for the contingency policies, like the Olympics being canceled, NBC would buy insurance for their rights, which might suddenly be not worth much. And when pricing something like that, we would think in terms of earthquake and risk and more recently terrorism, but we would never factor something like what portion of the price should come from the pandemic exposure. So I think the industry will become a lot more sophisticated in terms of thinking through what is the impact of pandemic risk across the entire portfolio as opposed to it just being localized to one or two areas.

Becky Quick: And I'm sorry, Don asked if anyone else on the stage wanted to comment after Ajit on that same topic?

Charlie Munger: I missed that.

Becky Quick: He was just looking if anyone else on the stage wanted to comment on that.

Warren Buffett: Well, as Ajit mentioned, people were throwing in, well, an event cancellation. I mean, lots of people buy insurance against the Olympics being canceled or the United States not participating. I mean, they try to think of all kinds of risks because they have had campaigns based upon all - so there's a lot of event cancellation insurance, and it was probably underpriced, the implicit part of that premium that was attributable to a pandemic risk. I mean, Bill Gates gave a terrific talk at TED five or six years ago and people ignored it. And it's very interesting because this isn't the worst case, what we've seen. And yet it's staggering in terms of what has happened. And people that wrote insurance that they may have found out sometimes that they were covering things they didn't want--didn't even intend to cover. And maybe the insurance, they didn't think they were buying. But nevertheless, after the event occurs, they get very inventive in coming after them. There are certain risks, too, that are just too big. The nuclear risk, for example, I mean the federal government very early on, they recognized that the private insurance industry, they can't handle the risk involved -- the financial risk that would be involved in terms of a massive nuclear strike or something like that.

So the pandemics, the wording will be much more careful in future policies on trying to define it very precisely. And incidentally, I mean, in the way the cases have come so far, in the United Kingdom, I mean, I think there was one particular insurer. I mean, the cases are coming down much tougher on insurers. In the United States, I mean, the policies were just written differently. You don't get insurance against something you don't buy against it for. And generally, the court decisions have come down favorable to insurers. And at Berkshire,

it just so happens, we are not a big, big player in commercial multiple peril, which might be where... It is not a huge factor for Berkshire.

INSURANCE EXPOSURE FROM COVID-19 PANDEMIC

Becky Quick: This follow up question is from Martin Devine. And he asked both Ajit and Warren, what's your best estimate of Berkshire's insurance claim exposure from the COVID-19 pandemic?

Ajit Jain: Well, in terms of reserves starting from last year to the end of the first quarter of this year, we have put up \$1.6 billion and change in terms of reserves. Now, what that doesn't take into account is some of the frequency benefit because of COVID-19 that results because of fewer accidents and Geico has had a huge tailwind because of that. But in terms of what the insurance operations collectively are going to be writing checks for, that number as of now is about \$1.6 billion. And my guess is that will probably grow because if you look upon it, the industry as a whole has reserved, we reserved \$1.6, as I mentioned. The industry as a whole has reserved about \$25 to \$30 billion for COVID-19 as of now. If you believe the pundits in the industry, they will tell you that number is probably going to be closer to a hundred billion. So there's another about \$70, \$75 billion of COVID-19 losses that need to flow through the insurance industry's balance sheet and income statement. Our number, therefore, of 1.6 that we have as of now is going to be a lot, lot higher, but it's not something that we cannot manage completely.

Warren Buffett: Yeah, we will not be in this top five payers, my guess, of insurance claims, even though we're... We write a much smaller amount of both life insurance and annuities, actually. In the end, we have more life insurance claims, but the annuities are not going to last. More people will have died that would have otherwise got payments under annuities. It cuts a lot of ways. It's one of the great human catastrophes of all time, but it was not that big in insurance. I would say this, if the insurance industry thinks they're going to lose a hundred billion dollars, the hundred billion ought to be up on their books. The idea of feeding in losses... you've got a liability. Our goal is to put up the liability when we think it's happened. We should not be at 1.6 billion. I would say this. If we really think we're going to have some proportional share of a hundred billion of it--but that's enough said on that.

RAILROAD CONSOLIDATION

Becky Quick: This next question is for Greg, but also for Warren and Charlie. It's from Blair Miller who asks, "What does the combination of Kansas City Southern with either Canadian Pacific or Canadian National mean to BNSF in terms of competition? Do you think the synergies of the merger will justify the multiple paid?"

Greg Abel: Sure. It's obviously a transaction we followed very closely with both Canadian National and Canadian Pacific bidding to purchase Kansas City Southern. Either of those companies acquiring Kansas City Southern **will have an impact on BNSF. What they're basically proposing is to create a north/south railway that goes from Canada into Mexico.** We do have a strong presence in Mexico, not as strong as some of our competition, but **we would feel competition there.** We'll follow that transaction very closely as it goes before the Surface Transportation Board. The standard that will be applied is that competition has to be protected or enhanced, so that's our opportunity to protect our franchise on behalf of our customers. We move intermodal business both in and out of there on behalf of certain customers. We'll want to protect the rights of our customers

there. So we'll be active in the approval process. But there's no question, at the end it impacts our franchise. Warren.

Warren Buffett: Yeah, it's not huge, but it affects both the Union Pacific and BNSF to a small degree, a relatively small degree. But that's not really the worry of the Surface Transportation Board. Their job is to do what's best for the shippers. **In terms of the price that's being paid, like I say, if you can borrow all the money for nothing, it doesn't make much difference to people. This would not be being paid under a different interest rate environment.** I mean, it's very simple. There's no magic to the Kansas City Southern. I think their deal with Mexico ends in 2047. It's the number of carloads carried. I mean, it's not going to change that much, but it is kind of interesting. There's only two major Canadian, what they call Class I railroads, and there's five in the United States. This will result in, essentially, three of the units being Canadian, four being U.S., which is not the way you normally think of the way the development of the railroad system would work in the United States. We've talked about it plenty and CPE, either Canadian Pacific, or Canadian National is very likely to get it. I think the Surface Transportation Board book voted four to one, didn't they, the other day? Am I correct on that?

Greg Abel: They voted on an initial trust structure that they had to approve for Canadian Pacific. That was a four-to-one vote, as you noted, Warren, so they're moving forward with the evaluation of it.

Warren Buffett: Yeah. Normally railroad deals are very long, take a long time for them to evaluate. But in this case, I think they have two opposing trust proposals, and in effect, if they make a quick decision on which trust proposal that they allow, I don't see they'll allow two proposals exactly, so it may be a very accelerated decision. I don't know. It's up to the Surface Transportation Board to do what's best for what their obligation is to the country to do.

Becky Quick: There was a follow-up question on that.

Warren Buffett: Sure.

Becky Quick: Do you think the valuation that they're paying is worth it?

Warren Buffett: Well, in a very, very mild way. I mean, **everybody's kind of played at making deals with different railroads ever since I've been in the railroad business.** We've talked about it. When CP, when Hunter came after it... Was it Hunter that bid on CP that kind of led the way? We looked at buying CP. Everybody looks at everything. **We would not pay this price.** It implies a price for BNSF that's even higher than what the UP is selling for. But it's kind of play money to some degree, I mean, when interest rates are this low. I'm sure from the standpoint of both CP and CN, there's only one K.C. Southern. They're not going to get a chance to expand. They're not going to buy us. They're not going to buy the UP. **The juices flow, and the prices go up.**

Charlie Munger: They're buying with somebody else's money.

Warren Buffett: Yeah. It's somebody else's money, and you're going to retire in five or 10 years. People are not going to remember what you paid, but they're going to remember whether you built a larger system. **The investment bankers are cheering you on at every**

move. They're just saying, "You could pay more." They're moving the figures around. The spreadsheets are out, and the fees are flowing.

PRECISION CASTPARTS

Becky Quick: This question comes from Asher Haft in Brooklyn who says --Asher has been a shareholder since 2006. He says that he appreciates your honesty and candidness when it comes to explaining costly errors you made. In this year's Chairman letter, you discuss that you made a mistake in 2016 when calculating Precision Castparts' average amount of future earnings, which resulted in Berkshire overpaying to acquire it. It appears that Precision's earnings declined substantially in 2020 because of the pandemic and the effect of airline and travel industry. What calculations could you have made in 2016 that might've altered your decision to acquire it? Secondly, are the problems Precision is currently facing larger than the pandemic?

Warren Buffett: Well, Berkshire didn't make the mistake. I made the mistake, incidentally. Anytime we look at buying a business, we're evaluating the competitive strengths of the business, the price we have to pay, the management we got, everything. We didn't make a mistake on the management, but in terms of the earning power on average--when Boeing has troubles with a Max, well, that's a probability. I mean, anytime any customer is that big, I mean, all kinds of things can happen. We have seen some of those things happen, and therefore I paid too much in relation to average earnings. It's a terrific company. I'm happy with the management and everything, but GE doesn't need as many engines as we thought they'd need. They get into the power business and a variety of things. We knew they were in the businesses, but we did not think those businesses would necessarily be in something close to a depression when other businesses that we bought end up sometimes doing better than we think. We'll continue making mistakes. I mean, I shouldn't say we will, I will, but even these-

Charlie Munger: The rest of us will help.

Warren Buffett: We've got some wonderful deals and some terrible deals. The nice thing about it is, as I pointed out, that this doesn't really apply in the case of Precision precisely, but when we're disappointed in a business, it usually becomes a smaller and smaller percentage of our business just by the nature of things, because it isn't going any place. When we got a successful business, like a GEICO or something of the sort... GEICO, they're doing 15 times as much business as when we bought control in 1996... they become a proportionally much more important part of our mix. You really get -- through just natural forces, you get more of your money in the things that have developed more favorably than you thought. You actually end up getting a greater concentration in the ones that work out. It's not like, as Charlie would say, it's not like having children. I mean, the bad ones will cause you more problems. In the children of businesses, the small ones kind of... with the way we -- we started with three businesses, Charlie and I. Berkshire was textiles, Diversified Retailing was a department store, and trading stamps, Blue Chip business. Those were the three companies we put together. All three of the original businesses failed, which sort of gets me in terms of the people that are worried about don't we know that coal is going to be phased out over time. Of course, we know coal's going to be, but that doesn't mean we're going to be phased out over time. I mean, every business has some things to think about a lot that way. The biggest danger, they have that section in the perspectives called... what do they call that about certain-

Greg Abel: Risk factors.

Warren Buffett: ... risk factors, yeah. The number one risk factor, you never see it. The number one risk factor is that this business gets the wrong management, and you get a guy or a woman in charge of it that they're personable, the directors like them, they don't know what they're doing, but they know how to put on an appearance. That's the biggest single danger that a business has, and that that person stays and runs it for 10 or 15 years, and either stays in the textile business, a department store business, and expands. I've looked at a lot of businesses and that's what's caused the number one problem. It isn't the kind of thing where they list them all because the lawyers tell them to list them.

CRYPTO CURRENCIES

Becky Quick: This question comes from Ragu Boshwell, and it's for both Warren and Charlie. Now that the crypto market overall is valued at \$2 trillion, do you still consider cryptos as worthless artificial gold?

Warren Buffett: Yeah, I knew there'd be a question on Bitcoin. I thought to myself, "Well, I've watched these politicians dodge questions all the time." I always find it kind of disgusting when they do it. But the truth is, I'm going to dodge that question because we've probably got hundreds of thousands of people watching this that own Bitcoin, and we've got two people that are short. We've got a choice of making 400,000 people mad at us and unhappy and/or making two people happy. That's just a dumb equation. I thought about it. We had a governor one time in Nebraska, a long time ago, but he would get a tough question, what do you think about property taxes or what should we do about schools? He'd look right at the person, and he'd say, "I'm all right on that one," and he'd just walk off. Well, I'm all right on that one and maybe we'll see how Charlie is.

Charlie Munger: Well, those who know me well are just waving the red flag at the bull. **Of course, I hate the Bitcoin success and I don't welcome a currency that's so useful to kidnapers and extortionists and so forth, nor do I like just shuffling out a few extra billions and billions and billions of dollars to somebody who just invented a new financial product out of thin air. I think I should say, modestly, that I think the whole damn development is disgusting and contrary to the interests of civilization, and I'll leave the criticism to others.**

Warren Buffett: I'm all right on that one.

ENERGY PROPOSAL FOR TEXAS

Becky Quick: The next series of questions are from James Hernandez. He has two questions, one for Ajit, one for Greg. They both concern Elon Musk. For Greg, this question is for you. Elon Musk has stated that Berkshire Hathaway's energy proposal for Texas, spending more than \$9 billion for new generating capacity, is wrong. Instead, Mr. Musk argues that load balancing using battery storage is the appropriate course of action. Can you explain why the BHE proposal is the better course of action for Governor Abbott and the State of Texas? Specifically, what amount of savings can the citizens of Texas expect above and beyond what Mr. Musk is proposing?

Greg Abel: Sure. Obviously, there was a very unfortunate event in Texas in February, and it basically lasted four days. Many lives were lost. The economic damage was significant. Texas has highlighted that anywhere from 80 to \$130 billion in incurred losses over that period of time. I think when you look at the power sector, it fundamentally let the citizens down. It didn't perform as they expected, and then when it did perform, it was extremely expensive. They incurred billions and billions of dollars of energy costs versus a multiple of basically 10 times what they paid. They paid 10 times in energy costs over those four days what they paid in the past year, so a very substantial event for Texas.

We've gone to Texas with what we believe is a good solution. We spent a lot of time pulling it together, understanding the fundamental issues around it. Our proposal is really based upon the fact that the health and welfare of Texans were at risk, and we needed to have, effectively, an insurance policy in place for them, that if they needed the power on very short notice, it would be able to be dispatched, and it would be there for the four days we're actually proposing. It could be there for seven days. The fundamental concept of our proposal has always been, if there's a better proposal that's brought forward, we've accomplished our mission. We've just been really there to... It's the best proposal or option we could come up with. Obviously, if Texas or Elon or someone else comes up with a better proposition, we've always said, "Texas, you should pursue it." We strongly believe right now we have what remains is a very good proposal for Texas. It'll continue to be discussed and evaluated.

The big difference between a battery proposal and our proposal is that we will have power that can be generated continuously for seven consistent days. Where if you went to a battery solution, you may release that power that's been stored for four hours, but we're talking four days of a problem, not four hours. It's just a completely different cost equation and solution. Very proud that our team brought forward what I thought was a very unique solution. We've worked hard with our suppliers and Peter Kiewit & Sons to put together what we believe is a firm cost that can also be delivered by November of '23. Again, we put a firm date on. It won't be ready next winter, unfortunately. It won't be ready this summer, but it's a valuable solution, and one that we hope at least leads to the right discussion and the right long-term solution for the state.

Warren Buffett: Yeah. We're also willing to put up \$4 billion that if we don't deliver when we say we're going to deliver, well, we'll pay it as a penalty, basically. We went to Kiewit. We went to General Electric and said, How long can we get turbines for that? If you're going to be prepared for 2023, you have to start at a point fairly soon and you have inflation going on. Kiewit's not going to change things on us in a month. We don't try to get the contracts all written out. They had a hundred people working on it.

Greg Abel: Yeah, they had hundreds working on it.

Warren Buffett: GE's cooperative and everything, but it doesn't mean we have the best solution. We just know what we can do. If anybody can do it faster, they can do it cheaper, whatever, that's terrific, but they should have something to lose if they don't do it. I mean, we will back our promise up by \$4 billion, and we won't have any rinky-dink clauses in there that if this happens or that happens, we don't pay, but we won't be able to do that a year from now. I mean, we can do it a year from now with the costs then, from what they are then, and then it'll be a year further out.

Texas is a terrific place to do business. We do a lot of business there. It's where BHHS had its headquarters. It's a great place. This was out of the blue, but one way or another, the nature of utility business is that you have to be prepared for something that probably isn't going to happen. You don't want to say, Well, it's a one in 30-year event, and then people die. I mean, you want a margin of safety in it. We've got one solution and other people may have other solutions. We will cheer when a solution is reached of any kind, and we will cheer a little louder if it's ours.

POTENTIAL INSURANCE FOR SPACEX TO GO TO MARS

Becky Quick: Ajit, your question from this gentlemen, suppose the hypothetical situation arises where Warren Buffett calls you on the phone to tell you that Elon Musk has contacted him about writing an insurance policy on his proposed mission to and subsequent colonization of Mars. Specifically, he wants insurance to insure a SpaceX heavy rocket capsule, payload, and human capital. Would you underwrite any portion of a venture like that?

Ajit Jain: This is an easy one. No, thank you. I'll pass.

Warren Buffett: Well, I would say it would depend on the premium, and I would say that I would probably have a somewhat different rate if Elon was on board or not on board. I mean, it makes a difference, I mean, if somebody is asking you to insure something, that's called getting skin in the game.

Ajit Jain: In general, I would be very concerned about writing an insurance policy where Elon Musk is on the other side.

Becky Quick: Okay.

Warren Buffett: Tell Elon to call me and send up Ajit.

HIGH MARGIN BUSINESSES

Becky Quick: This question comes from Michael Lu from California. This is for both Warren and Charlie. In your shareholder letter, you mentioned that the best investment results come from the companies that require minimum assets to conduct high-margin businesses. In today's world many of these companies tend to be software-driven businesses. While Berkshire has avoided investing in high-growth technology companies in the past, this appears to be slowly changing with your investments in Apple and Snowflake. As shareholders, should we expect that high-margin businesses will begin to constitute a larger proportion of Berkshire's investment portfolio over time, particularly as Todd and Ted take on larger roles in the investment decision process?

Warren Buffett: Well, **we've always known that the green business is the one that takes very little capital and grows a lot, and Apple and Google and Microsoft and Facebook are terrific examples of that. I mean, Apple has \$37 billion in property, plant, equipment. Berkshire has 170 billion or something like that, and they're going to make a lot more money than we do. They're in a better business. It's a much better business than we have, and Microsoft's business is a way better business than we have. Google's business is a way better business. We've known that a long time.**

We found that out with See's candy in 1972. I mean, See's candy just doesn't require that much capital. It has, obviously, a couple of manufacturing plants. They call them kitchens, but it doesn't have big inventories, except seasonally for a short period. It doesn't have a lot of receivables. Those are the kinds of businesses, they're the best businesses, but they command the best prices, too. There aren't that many of them, and they don't always stay that way.

We're looking for them all the time. We've got a few that are pretty darn good, but we don't have anything as big as the big guy, but that's what everybody's looking for. **That's what capitalism is about, people getting a return on capital. The way you get it is having something that doesn't take too much capital. I mean, if you have to really put out tons and tons of capital... Utility business is that way. It's not a super high-return business. You just have to put out a lot of capital. You get a return on that capital, but you don't get fabulous returns. You don't get Google-like returns or anything remotely close to it.** We're proposing a return in the transaction with the proposition with Texas. I think it's 9.3%, isn't it?

Greg Abel: Yeah, 9.3.

Warren Buffett: If you look at the return on most American businesses on net tangible assets, it's a lot higher than 9.3, but they aren't utility businesses either.

Becky Quick: Charlie, did you want to add anything to that?

Charlie Munger: Not a thing.

TED AND TODD

Becky Quick: This question is from Ryan Fusaro in New York City, who says, "Todd and Ted have taken on increased responsibility at Berkshire over the years, managing larger pools of capital, including the company's sizable Apple holdings, participating in M&A strategy, and even overseeing the company's now shuttered healthcare partnership with Amazon and J.P. Morgan. We are grateful for their efforts, but Todd and Ted are still not made available to shareholders at the annual meeting each year. Given their growing importance to the firm, can you discuss this policy and whether we can expect to hear from them more in the coming years?"

Warren Buffett: They're both absolutely terrific, and that's one reason I don't want people quizzing them on stocks. They are assets of Berkshire. There's no reason for them to be out educating other people on how to compete with us. It always seemed so silly that people expect it. They don't expect Merck or Pfizer or something to tell them exactly what their scientists are working on and where they stand or where the failures have been so they can eliminate those. If you've got talent that knows how to evaluate businesses, and those two fellows have gone far beyond that - they're terrific assets. They love Berkshire and they work extraordinary hours, but we don't really want them going around with people asking them questions about why you like this industry better than that industry or anything of the sort.

INVESTING IN CHINA

Becky Quick: This question is for Charlie. It comes from Steven Tedder in Atlanta. He's been a Berkshire shareholder for 10 years and says, "You and your friend, Li Lu, have been very optimistic with respect to investing opportunities in China. BYD has performed spectacularly for Berkshire since its initial purchase in 2008 and is currently valued at \$5.8 billion. The Daily Journal recently bought a large position in Alibaba after founder, Jack Ma, had been reprimanded by the Chinese Communist Party and Ma's other company, Ant, was not allowed to proceed with its IPO. What are your current thoughts on China and whether the Communist leaders will allow businesses with strong leadership to flourish in decades to come?"

Charlie Munger: Well, I think that the Chinese government will allow businesses to flourish. It was one of the most remarkable things that ever happened in the history of the world when a bunch of committed Communists just looked at the prosperity of places like Singapore and said, The hell with this. We're not going to stay here in poverty. We're going to copy what works. They changed communism. They just accepted Adam Smith and added it to their Communism. Now we have Communism with Chinese characteristics, which is China with a free market with a bunch of millionaires and so forth. They made that shift. They deserve a lot of credit. Warren and I are not quite as good at that, at changing our minds, in many cases.

That was a remarkable change coming from such a place. Of course, it's worked like gangbusters. They've had enormous growth in the average income of the average Chinese. They've lifted 800 million people out of poverty fast. There was never anything like it in the history of the world, so my hat is off to the Chinese. I think they will continue to allow people to make money. They've learned it works. I love what the guy said in the first place, "I don't care whether the cat is black and white, as long as it catches mice." That's my kind of talk.

Warren Buffett: In that list of the 20 most valuable companies, three are Chinese. Now, if you're looking out 30 years, probably things will be changing. My guess is more, but I don't think it will top the United States, but who knows? It's amazing what has been accomplished.

Charlie Munger: Yeah, really amazing.

Warren Buffett: They found what works. I mean, there's nothing like finding something that works in order to sort of reinforce ideas over time. We'll see what happens, but I would bet there will be more than three, but I will bet the United States has more than China has, too.

MACRO ECONOMIC PREDICTIONS

Becky Quick: This one comes from Tim Medley in Jackson, Mississippi, who's been a Berkshire shareholder since 1987. He writes, "On March 19th, respected economist Larry Summers, the former president of Harvard University and the former Secretary of the Treasury under President Obama, was critical of President Joe Biden's \$1.9 trillion American Rescue Stimulus Plan. In an interview with Bloomberg Television he said, 'I am much more worried that we will have more inflation or that we will have a pretty dramatic fiscal monetary collision. This goes way beyond what is necessary.' He said also, 'This is

the least responsible macro economic policy we've had in the last 40 years." Your thoughts?

Warren Buffett: You are asking me on that?

Becky Quick: He didn't write to who, so I guess anybody on the stage.

Warren Buffett: Well, I would say that Larry has been reading his uncle's book, which was Paul Samuelson. Larry is a very, very, very smart fellow. He's laying out possibilities which actually now have probably been voiced a little more even since that March 19th, whatever date it was, that he made that. You can't just do one thing in economics. If we really could shovel out more and more debt and the carrying cost turned out to be something... People thought Japan couldn't do what they've done. It used to be called the Widow Maker around Solomon and people were shorting Japanese bonds. The answer is we don't know, but Larry's view is an important view. It's just as good as probably the view on the other side might be.

We don't know what happens from the present policies. We do know, as Jay Powell said the other day, the idea that a hundred percent of GDP was some terribly dangerous level in terms of debt, that doesn't really make a whole lot of sense now. That used to be kind of accepted wisdom. We've learned a lot of things we thought before weren't true, but what we haven't learned yet is whether what we're doing now is true. **The best thing to do is recognize you don't know and proceed in a way where you get a decent result, no matter what happens. That's what we try and do at Berkshire Hathaway. We do not think we can make money by making macro economic predictions.** We do think we can be pretty darn sure we will get a reasonable result under policies that will not maximize results, if we could do that sort of thing.

Charlie Munger: It's not at all clear whether Larry is right or wrong

Warren Buffett: He's a smart man, though.

Charlie Munger: He is a smart man. It's courageous of him raising it, too. He's practically the only one talking that way, which I admire, by the way.

Warren Buffett: Yeah. It guarantees he won't get a position in the administration.

Charlie Munger: Yes. Well, that's one of the reasons I admire him, not that there's anything wrong with having a position in the administration, but I think people who kind of tell it the way they think it is, I like it.

BANKING INDUSTRY

Becky Quick: This question circles back to banking, which you touched on earlier, but Jerome Bernard from Switzerland writes, "Could you please explain why you decided to exit most of your bank stocks in 2020 except for Bank of America? What's your view on the future of the banking industry?"

Warren Buffett: I like banks, generally. I just didn't like the proportion we had in it compared to the possible risk at least, if we got bad results that so far we haven't gotten. We were over 10% of Bank of America. It's a real pain in the neck, both to the bank, more the banks

than to us if we go over 10%. There's just a whole lot of -- I like Bank of America and I like Brian Moynihan very much. I like the banking business fine. We took that up, but we took the overall bank position down. We didn't want to go above 10 in any of the others, and we did want to increase the B of A position, but we overall didn't want as much in banks as we had.

The banking business is way better than it was in the United States 10 or 15 years ago. The banking business around the world, various places, is what might worry me, but our banks are in far, far better shape than 10 or 15 years ago. But when things froze for a short period of time, the biggest thing the banks had going for them is that the Federal Reserve was behind them. The Federal Reserve, they're not behind Berkshire. It's up to us to take care of ourselves.

VERIZON

Becky Quick: This question comes from Matt Y. in Los Angeles. You recently purchased a large stake in Verizon. For educational purposes, could you please explain your thinking behind this investment? In general, many people see telecoms as dumb pipes that have to spend heavily on capex building out the 5G infrastructure, only for the other tech companies to take advantage and capture most of the value created from the infrastructure, like Facebook, Uber, Airbnb, and DoorDash.

Warren Buffett: Well, I think he's analyzed the situation well, but we are not in the business of explaining why we own the stock, which we either buy more of or sell or who knows what. So, he's on his own, but he sounds like he's very capable of thinking it through very well himself.

ANTI-TRUST REGULATIONS

Becky Quick: Slavin Vucalbrought writes in, Senator Josh Hawley recently unveiled a new antitrust proposal that would ban mergers and acquisitions by firms with a market capitalization over 100 billion dollars. While this legislation is unlikely to go through, increasing antitrust regulation could represent a material risk for Berkshire. Has Berkshire's board already discussed what would happen to the company over the long-term if Berkshire was to be prevented from acquiring controlled businesses?

Warren Buffett: Well, we don't discuss that as a specific, but the board is very, very, very familiar with what Berkshire does, why they do it, how we think in deploying capital. Everybody knows that if you change the antitrust laws, it can change things for Berkshire. If you change the tax laws, it can change things for Berkshire. There's a lot of things and we could spend hours discussing them, but in the end, is it a 22.3% risk that something changes? It's a good way to fill the time at board meetings and if you're getting 3 or \$400,000 a year as a board director, you might want to spend your time doing that. But we really don't focus on that.

The main thing about Berkshire is how they preserve the culture, how they make sure that if you get the wrong person as the CEO, you can do something about it. That's the biggest risk a board has is if you pick the wrong CEO and I've been on 20 boards, and this happened more than once. Sometimes it's a terrible problem to get rid of them. Years go by. If a dissident comes in, it's one thing, but if you just sit there and you collect your 3 or \$400,000 a year, and the chief executive keeps proposing you'll get an increase from time

to time -- it's worse yet if he's a nice person doing his best. But we're not going to spend a lot of time. We may do it on a personal basis, but we're not going to take a lot of people. We want them to know more about what's going on with BNSF and how Katie's doing, and whether the KCS thing can endure in a material way and so on. And we really don't, except maybe on a private side thing, we don't start talking about what the effects will be in 2050 if this projection or that projection is met. Charlie?

Charlie Munger: Nothing to add.

BERKSHIRE'S ABILITY TO ASSUME RISK

Becky Quick: This question was sent in by Don Graham during the meeting, based on something you said earlier today, and he says, why does Warren say Berkshire's ability to assume enormous risk quickly is a less valuable asset than it used to be?

Warren Buffett: Well, because the demand is less, basically on that. If you take a period like happened after 9-11, I remember, I may be wrong in the details, but Cathay Pacific, for example, they couldn't land in Hong Kong as I remember, unless they had an insurance policy by Monday of the following week. Well, we can do it. Ajit calls me up and he thinks of a price and I think of a price. But we can do it. We can take the loss if it happens. They called us on the Sears Tower I think back then, after that. They didn't know whether bombs might be placed all over. And they wanted more insurance all of a sudden and we gave them a price.

So that sort of an environment hasn't really persisted. There were times, I think, perhaps at AIG, when Hank Greenberg was there, he would do the same thing, but there weren't 10 or 20 people. And they needed big limits in some cases, and we were good for it. And they knew that if they bought the insurance and it had happened, we'd write a check and it would clear. Ajit, he might have something.

Ajit Jain: In addition to the demand side, the supply side has become a lot more competitive as well. A lot of people who can put big limits, not as much as we do, but they can syndicate a program and put up a billion dollars very easily. So that competitive advantage we had, we still have, but it's no longer as big a deal as it used to be.

KRAFT-HEINZ

Becky Quick: This question comes from a shareholder in Scotland who wants to know Warren, Charlie, and Greg's views on how Kraft Heinz has performed over the last 12 months compared to the disappointing performance pre-COVID. And what are your current and longer-term views on Kraft Heinz prospects?

Warren Buffett: Well, I think that Greg's on the board, so I don't know that we're in a position to give advice on Kraft Heinz. We entered, in effect, a semi-formal partnership with 3G many years ago when it was just a Heinz deal and then went on to acquire Kraft with our partners and they've done more than -- they hold up their share of everything. We do what we said we would do going in, which is to be a financial partner, and they're more of the operating partner, although we participate to a degree in any big decisions and they would listen to us, but we're not making any-- in terms of Kraft Heinz stock, that's up to somebody else to evaluate.

Greg Abel: The only thing I would add, Warren, is I think we're very comfortable with the fact that they put a strong manager in place in Miguel and he's put a very good team in place at Kraft Heinz. So we're pleased with the leadership and management team in place. They're very focused on how they're executing as they've gone forward and rationalizing their capital structure and managing down their debt structure. So, we are very pleased with the path forward with the existing management team.

Warren Buffett: Yeah. We feel better about the --this is a more general subject, but one of the subjects I might write about in one of the future annual reports is the problems caused by the myths that people have about their own organization. And I've seen that so many times in various forms. And to some extent, the problem has become accentuated in the last 20 or 30 years because the CEO often works with the investor relations and they say, Well, we have to have constant contact with the analysts' community. And of course, so they go on every couple of months and they repeat certain things about their company, and it becomes part of, sort of the catechism. And nobody's going to go on two months after the CEO has said one thing and say, Well, actually, that really isn't the way. They're not going to contradict themselves or change course.

So, if you get these myths and they can occur in a lot of different ways. I can give a lot of examples, which I won't do. As I tell my friends in corporate America, I'm not going to squeal on them, but there's a lot of mythology that gets handed down from one CEO to the next. Can the succeeding CEO say the guy that picked him was on the wrong course or he's been telling you something that isn't really quite true? He can't do it. And then he starts repeating it and it leads to enormous errors, but it's hard to tell the story without giving examples and I don't like to give examples. So, we'll see when I write about it sometime. Charlie, you probably have some thoughts. He's had a ringside seat at a lot of-- he's been on boards that I haven't been on. And it doesn't just extend the business. It goes beyond that, in education and a lot of areas.

Charlie Munger: Well, what's really interesting is the way you prattle out all the time. You're pounding back in, even if it's wrong. And so one of my favorite remarks in the history of human remarks was by Sir Cedric Hardwicke, who is a great British actor. And he said, "I have been a great actor for so long that I no longer know what I truly think on any subject." And I think that happens to a lot of people and it happens to virtually every politician.

Warren Buffett: And it gets embedded in corporate --

Charlie Munger: It gets embedded in corporate.

Warren Buffett: And the trouble is now the CEO speak out so often, so if they've got some crazy thing that they're saying about their company and they keep repeating it, the subordinates aren't going to contradict it, and, Charlie, they just believe it after a while. And it's dangerous.

Charlie Munger: Yeah. And of course, the young people get these ideas after their liberal education. They think that God has given them direct insights. And they're just as crazy as the politicians.

Warren Buffett: Now, there's some old people that have it ,too.

Charlie Munger: Well, the old people are already crazy.

Warren Buffett: They're going to die sooner.

Charlie Munger: We have our old insanities. The new insanities the young get.

HAVEN

Becky Quick: All right. This question comes from Bill Begley, who said, could you tell us what happened to the joint venture between Berkshire, JP Morgan and Amazon to investigate what could be done about the current state of medical healthcare in the United States? The only item I read was that it was disbanded. Do you have any lessons to be learned from your effort?

Warren Buffett: Well, we learned a lot about the difficulty of changing around an industry that is 17% of GDP and we accomplished a lesser objective, which was probably more important to us even than either JP Morgan or to Amazon. Because we knew less about our own system than they did. They knew, they were more centralized operations. So we got some benefits in the sense that we looked at 60 or 70 different operations we had presently. And that's one case where a certain amount of centralization, at least in certain aspects of it, can save real money. We found inefficiencies and we probably saved more than the other two partners because they knew their situation better. We found some dumb things we were doing. So we got our money's worth.

But in terms of the big picture of changing something that so many people have a vested interest in doing, and there's one additional factor to it, which is really interesting, there's an ingenious aspect to it and it goes back to a fellow named, which didn't have any direct connection, but Beardsley Rommel, and nobody's ever heard of Beardsley Rommel. Beardsley Rommel in 1941 came up with the idea of the withholding tax. So people, instead of April 15th having to write a check and thinking about how much they hated their politicians and hated the government and everything else, they actually looked at it as kind of a Christmas club and there were overpayments involved and they actually got a check when the final payment came.

So when you aren't writing the check yourself, you may know that the health benefit from your company is worth \$10,000 a year to you or \$15,000 and may cost them that much – it may cost the company that much, but you don't see it. The company pays it. And most of the people in that waiting room sitting next to me when --they are not sitting there thinking about whether I can afford to do this or what's this going to do, they're generally under some kind of a plan, not always, obviously, but they don't think that if the company wasn't paying them that they could pay them that in additional compensation. But of course, the weird system is the company gets a deduction if they pay it, but if you pay it yourself on a policy, I don't believe you get a deduction. So it's something that most of the people are not seeing as a cost to them. And they like that pretty well.

Charlie Munger: No kidding.

Warren Buffett: Yeah. Well, but that's true. The federal income tax, it was an act of genius from the standpoint of the government to go to a withholding system. And if you didn't-- just think of how many people on April 15th would have to sit down and write a pretty good-sized check and they'd be mad. They wouldn't like it and they don't feel it now. So that's an obvious point, but you also, people like their doctor in general. And they don't like the fact that it's 17% of GDP, but one it's just kind of an amorphous sort of thing. And the other is

very, very real to them. And the most prestigious people in the community are on the hospital boards and a lot of people are fairly happy with the system. So, we did not make inroads on that. And we are paying 17% of GDP for healthcare. And no major country is more than 11%. And in the pandemic, we've had a death rate, or a death total as a percentage of population, that's way higher than the rest of the world, not every single country, but way higher. So, we've laid out more money and gotten a poorer result in terms of this particular pandemic in terms of deaths per capita. Now that may not turn out to be the-

Charlie Munger: Oh, Warren, even though you shot and missed, you were at least shooting at an elephant. The cost of healthcare in Singapore is 20% of what it is in the United States and their medical system works better. So you were shooting at a huge elephant, but as you found out, it's very hard for people to get very enthusiastic about losing part of their income.

Warren Buffett: No. I said, we were fighting a tapeworm.

Charlie Munger: Yeah.

Warren Buffett: And the economy and the tapeworm won.

Charlie Munger: Yeah. The tapeworm won. Wonderful phrase. The tapeworm... I'll have to copy that.

Warren Buffett: Well, it wasn't the phrase we were looking for.

BERKSHIRE'S SIZE

Becky Quick: This question comes in from Mark Blakely in Tulsa. This is for Warren and Charlie. When we discuss Berkshire, we often focus on the insurance operations and the largest non-insurance businesses, the Redwoods, as you mentioned in 2019. However, Berkshire owns a large number of subsidiary businesses, most of which are never mentioned. Is there a point at which Berkshire becomes too large to manage? And should we have any concern over the lack of information for most of Berkshire's companies? Is there a time that could come when Berkshire is too large and complex?

Warren Buffett: Well, it's too large to do certain things, that's for sure. We can't spend our time looking for \$100 million acquisitions. But we have a wonderful company in Fort Worth and we had a marvelous man running it and he died recently, but he ran it. He sold it to me 15 years ago and he just basically ran it. And I couldn't find my way to the company. We've got this terrific company that makes recreational vehicles, the Elkhart based in Indiana. And we bought it 15 years ago. I've never been there. Maybe there's some guy in a closet just making up numbers to send to me every month. But I feel I understand the business pretty well. I remember seeing it and the fellow that runs it likes running it, and he likes me keeping my nose out of it.

He'll let Greg in a little more than he'll let me, but we've got a system that will work with wonderful businesses and wonderful managers. And it's up to us to find them, but it's also up to us to nurture them when we find them. And if you'll get somebody like Paul Andrews who ran TTI and who built it from nothing, absolutely nothing, nobody ever heard of him. The earnings octupled during the period that he ran it for us. And he was happy.

Employees were happy. He was a wonderful man. We were happy. And I would call him at the end of the year and I'd say, Paul, you're shooting the lights out on everything, you should take a raise or a bonus. He'd say, "Well, we'll talk about that next year, Warren." He just loved the business. I love Berkshire. He loved the business. And I wasn't going to add anything by having him fill out a bunch of reports about how much he's using in the way of carbon or anything. It's ridiculous to think of a guy like Paul Andrews behaving in an antisocial manner or anything of the sort. And we'd love to have more of those.

Obviously, we get bigger, they get harder to buy, but we've got a number in place. And I don't think we bought our last one over time, but I certainly don't see anything in the near future at all. But we're intensifying our interest a little bit in the ones we have by repurchasing shares. So our shareholders own more of those companies every year, assuming we're repurchasing shares, which is price sensitive. Charlie?

Charlie Munger: Yeah. **I don't think we're getting too big to manage because we're different from practically every other big corporation in the United States in that we are so excessively decentralized. We have decentralized so much, and we have so much authority in the subsidiaries that we can keep doing it for a long, long time, as long as it keeps working. And I would say so far that our decentralization has caused more benefits than defects, but nobody seems to copy us.**

Warren Buffett: Well, that's absolutely true. But I would say this, decentralization won't work unless you have the right kind of culture accompanying it.

Charlie Munger: Yeah, but we do.

Warren Buffett: Yeah, we do.

Charlie Munger: **And Greg Abel will keep the culture.**

Warren Buffett: If we had a culture of people who were trying to make a lot of money for themselves in the next five years at the top, it would not have worked.

Charlie Munger: No, of course not. And the culture is part of it, but assuming we keep the culture, it can go on for quite a ways.

Warren Buffett: For a long, long time.

Charlie Munger: Long, long time. I think it amazes everybody. And by the way, the Roman Empire worked as long as it did because it was so decentralized.

Warren Buffett: As Charlie says to me, you won't know.

READING AND INVESTMENT DECISIONS

Becky Quick: This question comes from Kevin Young, it's for Ajit and Greg. Warren spends his days reading and his literature of choice is annual reports. How do each of you spend your days? What do you read and how do you review investment decisions?

Ajit Jain: Well, in my job, I spend a lot of my time reading deals that brokers and people send us, reading what they're proposing, trying to analyze them, having a point of view,

whether it is something that is of interest to us or not. I might add, I do not spend a lot of time reading annual reports because I'm not in the stock picking business per se, but in terms of keeping track of what's going on in the insurance business, that's what 90% of my reading is all about. Greg.

Greg Abel: So generally in a day, what I'm going to focus on when I'm reading is really around our businesses, what industries they're in, I'm trying to understand what our competitors are doing, what's the fundamental risks around those businesses, how they're going to get disrupted. And then it always comes back to, are we allocating our capital properly in those businesses relative to the risks we're seeing both in our business and in the industry. So a lot of time spent on that. And as that knowledge is built, it's sharing it back and forth with our management teams of those relevant subsidiaries and sort of fine tuning it is really the approach.

Warren Buffett: Both of these fellows can absorb information to an extraordinary degree. For one thing, they're terribly interested in it. And it's theirs. So I'm amazed at both of them, the degree which they just sort of know everything. But they enjoy it. They're not thinking about whether they'll get the next job that opens up at some huge place or anything like that. Nobody leaves us, basically, the ones we want. But you've really got to kind of be in love with your business. And that makes a huge difference. And that means that we've got to have the conditions that allow that love to flourish and it wouldn't flourish with many organizations.

ROBINHOOD

Becky Quick: This question comes from Robert Miles in Nebraska. The trading apps. What do you think about Robinhood and other trading apps or FinTech companies enabling all ages and experience to participate in the stock market?

Warren Buffett: Well, I'm looking forward to reading the S1 on Robinhood- that's a big thing you file with the SEC when you are going to be offering securities. **It's become a very significant part of the casino aspect, of the casino group that has joined into the stock market in the last year, year and a half.** And I do want to say, I'm concerned about how they handle the source of income when they say that they don't charge the customer anything. It'll just be interesting to watch how they describe it. But they have attracted, maybe set out to attract, but they have attracted, I think I read where 12 or 13% of their casino participants were dealing in puts and calls. I looked up on Apple, the number of seven-day calls and 14 day calls outstanding. I'm sure a lot of that is coming through Robinhood and that's a bunch of people writing-- they're gambling on the price of Apple over the next seven days or 14 days. **There's nothing illegal about it. There's nothing immoral.**

But I don't think you would build a society around people doing it. If a group of us landed on a desert island, we knew that we'd never be rescued, and I was one of the groups and I said, Well, I'll set up the exchange and I'll trade our corn futures and everything around it. I think the degree to which a very rich society can reward people who know how to take advantage essentially of the gambling instincts of, not only the American public, worldwide public, it's not the most admirable part of the accomplishment. But I think what America has accomplished is pretty admirable overall. And I think actually, American corporations have turned out to be a wonderful place for people to put their money and save, but they also make terrific gambling chips.

And, if you cater to those gambling chips, when people have money in their pocket for the first time, and you tell them they can make 30 or 40 or 50 trades a day, and you're not charging them any commission, but you're selling their order flow or whatever, I hope we don't have more of it. I'll put it that way. And I will be interested in reading the perspectives. Charlie.

Charlie Munger: Well, that is really waving the red flag at the bull. **I think it's just God awful that something like that would draw investments from civilized men and decent citizens. It's deeply wrong. We don't want to make our money selling things that are bad for people.**

Warren Buffett: But we've got the states doing it with the lottery.

Charlie Munger: No, but that's bad, too.

Warren Buffett: I understand but-

Charlie Munger: That's very bad. That's one of the things that's wrong with it. It's getting respectable to do these things. The states are just as bad as Robinhood.

Warren Buffett: Well, in a sense they're worse. They're really taxing hope.

Charlie Munger: I know. I know.

Warren Buffett: They're taxing hope.

Charlie Munger: Not only that-

Warren Buffett: And they don't get much in the way of taxes from me or Charlie.

Charlie Munger: The states in America replaced the mafia as the proprietor of the numbers game. That's what happened.

Warren Buffett: Yep.

Charlie Munger: They pushed the mafia aside and said, That's our business, not yours. Doesn't make me proud of my government.

Warren Buffett: When I was a kid, my dad was in Congress, they had a numbers runner in the house office building, actually.

INFLATION

Becky Quick: I will ask this question from Chris Freed from Philadelphia, and whoever wants to take this on stage, from raw material purchases by Berkshire subsidiaries, are you seeing signs of inflation beginning to increase?

Warren Buffett: Let me answer that and Greg can give more -- **we're seeing very substantial inflation. It's very interesting. We're raising prices. People are raising prices to us, and it's being accepted.** Take home building. We've got nine home builders in addition to our manufactured housing operation, which is the largest in the country. So

we really do a lot of housing. **The costs are just up, up, up.** Steel costs, just every day they're going up. And there hasn't yet been --because the wage stuff follows. The UAW writes a three-year contract, we've got a three-year contract, but if you're buying steel at General Motors or someplace, you're paying more every day. **So it's an economy really, it's red hot.** And we weren't expecting it.

All our companies, they thought when they were allowed to go back to work for various operations- we closed the furniture stores. I mentioned they were closed for six weeks or so on average, and they didn't know what was going to happen when they opened up. They can't stop people from buying things and we can't deliver them. And they said, Well, that's okay, because nobody else can deliver them either and we'll wait for three months or something. So the backlog grows. And then we thought it would end when the \$600 payments ended, I think, around August of last year. It just kept going and it keeps going and it keeps going, and it keeps going. I get the figures every week, I call or they call me, and we go over day by day what happened at three different stores in Chicago and Kansas City and Dallas. And it just won't stop. **People have money in their pocket and they pay the higher prices.** When carpet prices go up in a month or two, they announced a price increase for April, our costs are going up. **The supply chain is all screwed up for all kinds of people, but it's almost a buying frenzy, except certain areas you can't buy in.** You really can't buy international air travel.

So the money is being diverted from a piece of the economy into the rest. And everybody's got more cash in their pocket, except for meanwhile it's a terrible situation for a great percentage of the people. This suit, I haven't worn a suit for a year practically and that means that the dry cleaner just went out of business. I mean, nobody's bringing in suits to get dry cleaned, and nobody's bringing in white shirts. A place where my wife goes... The small business person, if you didn't have takeout and delivery services for restaurants, you got killed. On the other hand, if you've got takeout facilities, same source sales, Dairy Queen are up a whole lot and they adapted. But it is not a price sensitive economy right now in the least. And I don't know exactly how one shows up in different price indices, but there's more inflation going on-- quite a bit more inflation going on than people would have anticipated just six months ago or thereabouts.

Charlie Munger: Yeah. And there's one very intelligent man who thinks it's dangerous and that's just the start.

Warren Buffett: Greg, you probably are in a good position to comment.

Greg Abel: Warren, **I think you touched on it, when we look at steel prices, timber prices, any petroleum input, fundamentally there's pressure on those raw materials.** I do think something you've touched on, Warren, and it goes really back to the raw materials. **There's a scarcity of product right now of certain raw materials. It's impacting price and the ability to deliver the end product.** But that scarcity factor is also real out there right now as our businesses address that challenge. And it may be some of that's contributed or arisen from the storm we previously discussed in Texas. When you take down that many petrochemical plants in one state that the rest of the country is very dependent upon it, we're seeing it flow through, both on price, but overall in scarcity of product, which obviously go together. But there's challenges, that's for sure.

QUANTITATIVE INVESTING

Becky Quick: This question comes from BJ Coralla. What do you think of Quants? Jim Simons Medallion Fund has done 39% net of fees for three decades, which proves that it works. Will you consider hiring a Quant Lieutenant in Berkshire to work alongside with Ted or Todd.

Warren Buffett: Well, I'll say no to the second part and I'll let Charlie handle the first part.

Charlie Munger: Well, that's rather interesting. The Quant fund did fabulously on the short-term trading. They found little algorithms that worked to make them add predictive value. And as long as they kept working, just kept doing it, as long as the money kept coming in. When they got to using the same system, just to finding some little algorithm and trying to do it mechanically for long-term stock predictions, the record was not nearly as good. And in the short-term stuff, they found that if they tried to do it too much, they destroyed their own advantage. So there was a limit on the amount they could make.

Warren Buffett: But they were very, very smart.

Charlie Munger: Yes, they got very rich.

Warren Buffett: And very, very smart.

Charlie Munger: Very smart and very rich, yes. And very high grade, by the way.

Warren Buffett: Yeah.

Charlie Munger: Jim Simons.

Warren Buffett: But we're not trying to make money trading stocks. The answer, we don't think we know how to do it. If we knew how to make a lot more money trading stocks, we'd probably be trading stocks, too, but we don't know how to do it, and we really don't trust anybody else to do it for us. That simple.

BUY AND HOLD INVESTING

Becky Quick: This question comes from Richard Warner. Mr. Buffett has espoused for decades the philosophy of buy and hold or hold forever was too short of a time period. Is it a misperception on my part or has his philosophy changed? It seems to be a much greater turnover in the equity portfolio lately.

Warren Buffett: I don't think there's that much turnover.

Charlie Munger: But there's too much.

Warren Buffett: What?

Charlie Munger: There's way too much.

Warren Buffett: Yeah.

Charlie Munger: It's still too much. It's the same amount.

Warren Buffett: Yeah, I'd agree with that. And the truth is our businesses are equities, so we own 400 or 500 billion, maybe more, in businesses. We don't turn them over at all. We don't resell businesses. Well, we won't even get into that, what we could do, but we don't do it. And we do relatively little, but as Charlie says, we'd do better if I had done less.

PENSIONS

Becky Quick: This is from Daniel Gaultier. "Warren Buffett's 2013 letter, in the middle of page 21, made a prediction that in the next decade you'll see lots of really bad news about pensions. Given recent events like COVID-19 and that 2023 is two years away, would Mr. Buffett like to comment or revise his 2013 prediction? Did COVID-19 delay, accelerate, eliminate, or not change it?"

Warren Buffett: Well, in a very limited, I mean, in a terrible way, COVID improved the pension position. You have less pensioners. But the pension situation is terrible in a great many states. It's not so bad at the corporate level, and there's some multi-employer plans, obviously, that have got problems. But basically, it's a terrible problem for the states, of course, some states. And states are going to go to Washington now and say, We all want to get a lot of money because we had these terrible things happen to us during the pandemic, which they did. But some of those states have enormous pension deficits and they'll come again if they get a check once and make sure not to be a federal obligation, defacto or something, the state's situation has not gotten better. It has not gotten better at all, obviously.

And to a certain extent, the pension managers get more and more desperate as interest rates go down. So they'll listen to almost anybody that promises them - they've always had that tendency anyway, but they'll listen to people that promise them that they're going to one way or another solve their problem for them, and that isn't going to work. So it's a big, big, big problem. And, of course, the real problem is, let's just take a hypothetical state that has a huge pension deficit, and maybe even has a cost of living factor in it, which is really going to be a killer. And you can move if you're an individual. Charlie won't move to save that 500 million. He was not going to move to Nevada or someplace. But you can move if you're an individual, to some degree, particularly if you're rich and old and retired, and you can actually take away an asset from that kind of environment and give it to another state that doesn't really need it as much. So you'll get adverse selection over time. But if you're a company and you put a plant there, you can't move the plant in five or 10 or 20 years. So as the taxable base of individuals falls down simply because people select out of being a part of a population. You can't select out very well as a corporation. So you have to be very careful and think a long time before you go into some state with a huge pension deficit and a declining population because you're going to be the last man left and the pensions won't go away. Well, anybody with a short-term outlook doesn't worry about that. I mean, just get me past the next election, and I'm all right on that one. We're not going to say our plant is going to be around for 50 years in some place where the population gets halved and the richer part gets cut dramatically, even more dramatically, and we still got a valuable plant there and we've got to keep operating. One way or another, it's not going to be a good place to be.

Becky Quick: And we're almost out of time so I'll make this the last question.

Charlie Munger: That's a good answer. It reminds me of my old Harvard law professor. He used to say, "Let me know what your problem is and I'll try and make it more difficult for you."

BIGGEST LESSON LEARNED IN THE LAST YEAR

Becky Quick: So this one comes from Jan Michael Atlinger. It's for Warren and Charlie. "I have one question which is inspired by Charlie's mantra, 'You have to be a continuous learning machine.' So here's my question. What's the biggest lesson both of you learned during the last year?"

Warren Buffett: Well, my biggest lesson has been to listen more to Charlie. He's been right on some things that I've been wrong on.

Charlie Munger: Well, I don't know. If you're not a little confused by what's going on, you don't understand it. We're in uncharted territory.

Warren Buffett: We enjoy, in a crazy way, actually seeing what happens. I mean, this has made us halfway through the movie much more interested in watching even more. This is an unusual movie. Our basic principles are we start with the fact we don't want to disappoint the people who left their money with us and things flow out of that. And we may disappoint people that don't make quite as much money. **And we've seen some strange things happen in the world in the last year and 15 months, and we've always recognized the fact that stranger things are going to happen in the future. And I would say, if anything, it's reinforced our desire to figure out everything possible we can do to make sure that Berkshire is 50 or 100 years from now every bit the organization and then some that it is now.** Charlie?

Charlie Munger: Well, of course, that's the idea. I think it's pretty likely to work.

Warren Buffett: Well, we wouldn't have spent 55 years at it unless we did.

Charlie Munger: Yeah.

Warren Buffett: And Becky, is that the last question?

Becky Quick: That's the last question.