

BERKSHIRE HATHAWAY ANNUAL MEETING ON MAY 3, 2008

When we were checking into the hotel in Omaha for the Berkshire Hathaway annual meeting, the young couple ahead of us asked the desk clerk what was going on in town given that it was so busy (more than 31,000 people from around the world had arrived to hear the Oracle of Omaha). The desk clerk responded that it was the Berkshire Hathaway meeting. The young fellow quizzed, “The Berkshire what meeting?” The desk clerk rolled her eyes and said, “You know, Warren Buffett!” The young fellow shrugged his shoulders as he obviously had never heard of Berkshire or Buffet. He then muttered, “It figures! Last place we visited was really busy, too, since an Elvis convention was in town.” At this point, I couldn’t resist joking, “In Omaha, Warren is bigger than Elvis!”

Warren Buffett and his 84-year old sidekick, Charlie Munger, got things “All Shook Up” with these comments from the annual meeting:

INVESTMENT LESSONS

Warren Buffett said the best investment lessons still come from Ben Graham’s book, *The Intelligent Investor*. If investors absorb the lessons from Chapter 8 and 20, they can’t get a bad result. The three most important lessons are: 1) Think of a stock as part of a business and seek to own a group of high-quality businesses, 2) Use the stock market to serve you, not to instruct you, and 3) Always buy with a margin of safety.

INSURANCE BUSINESS

Currently, Berkshire owns 95% of Cologne Re, which is a subsidiary of General Re. Cologne Re is the oldest reinsurance business in the world. Berkshire will soon own 100% of this “magnificent business.” Operations will continue as normal with the exception of the investment portfolio at Cologne Re which will be taken over and managed by Berkshire.

FORECASTING THE STOCK MARKET

Warren Buffett stated he doesn’t have the faintest idea of where the stock market is going, and he has never been in the business of forecasting the direction of the stock market. He advised investors not to think about the stock market, but to focus on looking for businesses that are attractively priced. Seek to own companies you would be happy to hold even if the stock market was closed for a couple of years.

FINDING GOOD MANAGEMENT

Buffett said he finds good management teams by “cheating.” Berkshire runs a decentralized operation with 250,000 employees and only 19 people at headquarters.

He only buys businesses with good managers in place after watching how the businesses have performed over decades. Buffett's job is to retain the good managers even though most of them are independently wealthy. Before buying a business, Buffett questions whether the managers love the business or love the money. The Berkshire managers love the business. Buffett can see the passion in their eyes and works hard to create an environment in which the managers are appreciated. Buffett looks for managers who are batting .400 and who are good communicators. He told the story of how Mrs. B worked at the Nebraska Furniture Mart until she was 103. After retiring, she died the next year. He joked, "That should be a lesson for all our managers."

USING STOCK OPTIONS AS PART OF INVESTING STRATEGY

Warren Buffett said he virtually never uses stock options as part of a strategy either to enter or exit a stock position, although he did once sell a put option on Coca-Cola which was never exercised. He would have been happy if it had been exercised so he could have accumulated more Coke shares at an attractive price. However, he noted that if you want to buy or sell a stock, you should just do it as you may miss the transaction you want if you play around with options. If you want to buy a stock you don't need "fancy techniques." Buffett added that teaching option pricing in business school is a waste of time. What business schools should teach is how to value a business and how to think about stock market fluctuations. Investment success is driven by buying good businesses at the right price.

Charlie Munger chimed in that stock option exchanges turn the financial markets into gambling parlors so the croupiers can make money.

CHARITABLE GIVING

Buffett said while he is giving away his excess money (the largest charitable donation in history); his giving is not on par with those who give both money and time that makes a difference in their lives. He cited his sister, Doris, as a generous giver. Buffett warned that you can make mistakes in giving just as you can in any area, so he advised making gifts to something you are involved with.

Charlie predicted that if you have an extreme political ideology, you are likely to make a lot of dumb charitable gifts.

CORPORATE ETHICS

When questioned whether Fruit of the Loom runs "sweatshops," Buffett commented that Fruit of the Loom has terrific ethical standards. Buffett lets the managers run their businesses as they see fit, and the ethical standards of the managers have been extraordinary. While Buffett doesn't provide them with any guidelines, he has told them that Berkshire has all the money they need but not a shred of reputation to lose. Therefore, there is no pressure or incentive for the managers to "manage earnings" by

doing something unethical. While Berkshire is not perfect, Buffett is not unhappy with the batting average of his managers.

COMMODITY PRICES AND INFLATION

High commodity prices (notably tungsten) had no impact on Iscar's decision to build their plant in China. They just wanted to be closer to the customers they serve in the Chinese market. While there is no substitute for using tungsten in cutting tools, it usually takes 3-6 months for changes in commodity prices to impact profitability for the business. Iscar generally passes through the higher costs. Buffett commented that he had very high expectations for Iscar when he purchased the business and that those expectations have been exceeded. He described Iscar as the "dream acquisition" both financially and from a people standpoint.

However, in certain Berkshire businesses, such as the carpet business, it is tough to pass on higher costs given the slowdown in housing.

Charlie said he doesn't like inflation since it is bad for the country and bad for civilization, but noted that Berkshire will make more money because of inflation.

LARGE-CAP VERSUS SMALL-CAP EQUITY PURCHASES

Buffett acknowledged that he has made significant equity purchases over the last 12 months, but cautioned investors not to expect the same returns as Berkshire has earned in the past. He said he will be happy if Berkshire earns a pre-tax total return of 10% on these equity investments. Given Berkshire's size, he must look at large stocks with market capitalizations of at least \$10 billion, since a 5% position would be \$500 million. Even if that stock doubles, after paying taxes, the return of that investment just won't move the needle much at Berkshire. Buffett's universe of stock investments has thus shrunk enormously with Buffett generally seeking investments with market capitalizations of at least \$50 billion. Berkshire will buy large, first-class businesses with first class managers. These large companies, however, will not produce as profitable returns as may be found among smaller capitalization companies. Buffett noted that Berkshire will still get decent results, but not indecent results.

Charlie added that investors can take Warren's promise to the bank noting that Berkshire's returns will be less in the future than in the past and suggested investors adopt that attitude.

In terms of the large businesses he knows, Buffett said he has a "Go-No Go" signal on what businesses he can understand, which rules out lots of things. If he can't make a decision in five minutes on a business, then he knows he can't make it in five months of study about the business. Charlie added, "We don't do start-ups."

KLAMATH RIVER AND POLLUTION

Several questions were raised as to possible pollution from PacifiCorp in the Klamath River. In making the acquisition of PacifiCorp, Buffett had to agree to prohibitions from making decisions related to PacifiCorp's operations. He, thus, turned over these questions to David Sokol, the chairman of Berkshire's utility businesses. Mr. Sokol explained that PacifiCorp is in re-licensing discussions for their dams with 28 various parties. These negotiations will be subject to FERC and state regulator rulings. If public policy moves in the direction of dam removal or status quo, then PacifiCorp will work in whatever direction is dictated. There are trade-offs in government policy in terms of looking at the economic cost of electricity versus what is best for society. There will always be lots of competing desires and needs of society.

MAINTAINING GOOD PHYSICAL AND MENTAL HEALTH

When Buffett was asked how he maintains good mental and physical health, he reached for a piece of See's candy and chuckled, "It starts with a balanced diet. You need some See's, some Wrigley's and some Coca-Cola." He said what really helps is liking his job. Other than meeting with a trainer three times a week for 45 minutes, he loves what he does every day. He asked, "How can you be sour in life when you have great partners, great managers and a great family? We count our blessings." Buffett continued that associating with wonderful people is as good as it gets especially when you live in the best country in the world.

Charlie added that while he wishes they could be poster boys for running marathons, neither of them pay much attention to diet and health rules and it has worked out pretty well. He growled, "I don't plan to change!"

CORPORATE COMPENSATION

Buffett ridiculed \$10 million or more retention bonuses that some corporate CEO's are given. He said he doesn't know a CEO who wouldn't do the job for half the price.

Charlie added that, "In a job that you would pay to have, there is a lot to be said for not paying yourself very well. You should be an exemplar."

Buffett noted that individuals can't do much about protesting excessive corporate compensation, but that large mutual fund owners could. He said that if they would withhold their votes and issue a short statement about why, it would get the board of directors' attention since "big shots don't like to be embarrassed."

DETERMINING A PROFESSION

A high-school student asked Buffett the best way to choose a profession to follow. Buffett advised the student to choose something he is passionate about as it is terrible to "sleepwalk through life." For Buffett, it was investing since he was good at it, and it

required no heavy lifting. Buffett learned about investing by reading books in his Dad's office. He noted those books turned him on, while joking that was in the days before Playboy. He also advised going to work for an organization or individual you admire, which leads many people to become self-employed. Buffett recalled how he went to work for Ben Graham for two years, and he was excited every morning to get out of bed. He also said it was very important to find the right spouse, although that is sometimes easier said than done. He joked about the fellow who looked for 20 years before finding the perfect woman. Unfortunately, she was looking for the perfect man.

Buffett also advised a young student to read a daily newspaper and learn as much about the world as he could. Find out what is most interesting to you. The more you learn, the more you will want to learn. He also tells students, "The best investment is an investment in yourself. You only have one body and one life, so take care of your body to make it last a lifetime."

Charlie added that you'll do better in life if you develop a passion for something you have an aptitude in...noting that if Buffett had gone into ballet, no one would have ever heard of him. Charlie also said teachers should teach students how to avoid being manipulated by vendors and lenders. He recommended that teachers include Robert Cialdini's books, "Influence, The Psychology of Persuasion" and a new book, "Yes" on their reading lists. When speaking of books, Warren recommended Lawrence Cunningham's "The Essays of Warren Buffett" which has recently been revised.

COMMUNICATION

Buffett revealed that when he was in high school and college, he was terrified of public speaking. It made him physically ill. He decided to take a Dale Carnegie course and after signing up for the course with a check for \$100, he promptly put a stop payment on the check. The next time he signed up for the course, he paid with cash which forced him to complete the course. Afterwards, he volunteered to start teaching which forced him to speak in public. Buffett said the ability to communicate whether in person or in writing is enormously important as it will provide you with an enormous advantage in life. He advised folks to do it while young and force yourself into situations where you have to do it.

PAIRS TRADING

Pairs trading is when investors may be long in one security which they believe is undervalued while short in a similar security that they believe is overvalued. Ben Graham was the first to employ this technique in the 1920's and it worked modestly well. Buffett employed the strategy in the 1960's but did it by shorting the general market and not shorting individual securities. Buffett added it is not something he would do today. He said if you can buy an undervalued business, there is no need to short the market. He commented on the many new 130/30 mutual funds that have

come out recently where they go long 130% and short 30% in the portfolio. He said, "They are just trying to sell the idea of the day."

Charlie added that Berkshire made their money by being long wonderful businesses not by being short.

DISLOCATIONS IN CREDIT MARKETS

Buffett said Berkshire will make extra money due to dislocations in the credit markets. Specifically, he referenced the severe dislocations which occurred in the auction rate securities market for municipal bonds. There were huge dislocations involving billions of dollars of securities. He cited the example of one security he purchased for an 11.3% yield that someone was bidding 6% for at the same time. Buffett said when there are extreme dislocations such as during 1973-1974 and the Long Term Capital Management period, it is a great time to make money. Berkshire did invest \$4 billion in auction rate securities which will make extra money for Berkshire for a few months, although it won't be significant overall to Berkshire's results.

Charlie added the extreme market dislocations generally provide very brief opportunities to take advantage of them. Municipal securities were mispriced as hedge funds had to dump them. Those who could think fast and act quickly were able to take advantage of this brief opportunity.

GROWING A SMALL BUSINESS INTO A BIG BUSINESS

Buffett said it just takes time and the nature of compound interest to grow a small business into a big business. Currently, Berkshire owns 76 wonderful businesses.

Berkshire will own more businesses in a few years than they do now and most of the existing businesses will be better businesses. Buffett cited Gypsy Rose Lee who said, "I have everything I had 20 years ago, except it is two inches lower." With Berkshire, we have everything we had 20 years ago, except it is better!

Charlie noted that most small businesses will not grow into big businesses and that most big businesses fall into mediocrity or worse. Charlie noted, however, how Berkshire had created from scratch a small reinsurance business and turned it into a large business thanks to Ajit Jain. Charlie said Berkshire's best investment was the fee paid to the executive recruiter that brought Ajit to Berkshire.

BERKSHIRE HATHAWAY ASSURANCE

Ajit Jain has also built an entire municipal bond insurance business, Berkshire Hathaway Assurance, in a matter of months. This business generated \$400 million in premium volume during the first quarter of 2008. They did 278 transactions out of Ajit's office of 29-30 people. This volume is larger than all the other muni bond insurers combined. All of this business came from people who already had paid insurance fees of 1% to other muni bond insurers, while paying Berkshire 2 ¼% to

provide secondary insurance in case the other muni bond insurers failed, which tells you something about the meaning of the other insurers "Triple A" ratings. Berkshire Hathaway Assurance recently also wrote \$370-\$380 million of primary insurance for the Detroit sewer system with these bonds trading at lower yields than other issuers due to Berkshire's insurance.

BEST METRIC TO EVALUATE A BUSINESS

Buffett said the best way to evaluate an investment is to ask yourself if you understand the business enough so that you will know the future of the business. You need to understand the nature of a business before you can make a judgment on the financial statements.

Charlie added that one metric he prefers is to find businesses that "drown in cash." He hates businesses where there is no cash left at the end of the year. Buffett agreed that he likes businesses that send him cash year after year.

GROWTH VS PROFITABILITY and EUROPEAN BUSINESSES

When Buffett was asked whether he preferred a business like See's Candies, which has high profitability but little global growth or a company like Lindt Chocolates with lower profitability but higher global growth, he said, "It doesn't matter." What Buffett is looking for is a business with a durable competitive advantage with management he likes and trusts and that he can acquire at a price that makes sense. He added that Lindt is unlikely to sell at a price that Berkshire would pay. Unlike the stock market which does occasionally provide one with bargain prices, private businesses don't generally sell for bargain prices. If Buffett can buy a private business at a fair price, he will do it, but he will never do a deal "regardless of the price."

He added that most private wonderful businesses should remain private. However, there are times for either tax or family reasons that they need to sell the private business. In that case, he hopes the business will consider Berkshire as a possible buyer since they will be able to retain more of their attributes of the business if they sell to Berkshire than to another buyer. Buffett is going to Europe to get on the radar screen of private businesses that may want to sell to Berkshire.

Charlie told the story of a wonderful business that was sold to a known crook so the seller could get a higher price. He said that was "insane" and you should always sell a business to somebody you know will be a good steward of what you created.

HEDGING THE DOLLAR

Buffett said he is happy to invest in businesses in other currencies as he doesn't expect their currencies to depreciate against the U.S. dollar. Over the next 10 years, he expects the U.S. dollar to continue to weaken. Berkshire's investments already earn a fair

amount of earnings from outside the U.S. like Coca-Cola, which is benefiting from the weaker dollar.

POLITICS

Asked what policies he would implement if he were President, Buffett joked that the first thing he would do if elected would be to ask for a recount. Buffett noted that he would do something about the tax system so that the super-rich paid more and the middle class paid less.

He said we have three good candidates for President who are smart about economics. He added that the country works pretty well despite politics. While the politicians have to employ “situational politics” like calling for windfall taxes on the oil companies to help them get elected, they will behave once they get in the White House.

Charlie commented that after Enron shocked the nation with gross folly, the politicians passed Sarbanes-Oxley regulations which were equivalent to shooting an elephant with a pea-shooter. The current convulsion in the market makes Enron look like a tea party. We will end up with new regulations that also won't work perfectly.

SUCCESSION

Berkshire has three internal candidates to assume the CEO position if needed. Berkshire's board is unanimous on knowing which one to pick if the decision had to be made tomorrow. They will pick someone reasonably young.

As far as the Chief Investment Officer, there are four candidates that would be good to fill the job. They meet the criteria Buffett laid out in the 2006 annual report, including being genetically programmed to avoid risk. They are all reasonably young, rich and happy where they are currently working. Compensation will not be a major factor. Right now there is no reason for them to come to work for Berkshire as Buffett will continue to make the majority of the investment decisions. (Buffett noted that he quit working for Ben Graham, because he wanted to make his own investment decisions.) However, the Board knows who they are and will decide on one or all four of them when necessary. There will be no gap in having someone available to manage the business.

Charlie chuckled that Berkshire still has a “rising young man named Warren Buffett” to make investment decisions. Buffett retorted that is the advantage of having a partner who is 84, since he will always appear young to Charlie. He also joked that with their average age being 80, they are only aging at a rate of 1.25% per year which is the lowest rate of aging in Corporate America. It is much riskier to have a 50-year old CEO who is aging 2% a year.

DIVERSIFICATION

If you are confident in your investment decisions, there is nothing wrong with investing 75% of your net worth in a single investment idea. The problem occurs if you put 500% of your net worth in an investment through leverage. That's what happened at Long Term Capital Management...they didn't get to play out their hand. While Berkshire is "not a cinch," there is a strong probability that the business will do fine. Capital Cities in 1974 was selling for 1/3 of the value of their properties with the best manager in the industry, Tom Murphy, running the business. In that case, an investor could have put 100% of their net worth in that investment and not worried. At the initial time, Berkshire acquired Coca-Cola, an investor could also have heavily invested in Coke without worrying about diversification.

Charlie added that students learning about diversification in corporate finance classes have it taught to them "bass ackwards." Diversification is for the "know nothing" investor not for the professional investor who knows what they are doing. Buffett quickly added that there is nothing wrong with diversification (through a low-cost index fund) for investors who don't have time for investing.

As far as diversifying assets among taxable accounts and IRAs, Buffett advised looking at your overall account as a single unit in terms of making investment decisions. Charlie added that if you do have investments which generate high taxable income then you may find those investments to be more suitable for an IRA.

OIL, COAL AND ETHANOL

Buffett said we will not run out of oil in the next century, although the production of oil will at some point level off and decline gradually. Depletion will decline gradually from the 87 million barrels of oil being produced daily now. The surplus capacity in oil is less than at any other time in history. Buffett said he doesn't know if peak oil will occur in five years or fifty years, however, adjustments will be made.

Charlie added that if we have another 200 years of economic growth like in the past, then all natural resources will be used up, and we will have to rely on the sun. There will be pain along the way. Government policy is way behind rationality. Oil production will be down 25 years from now at the same time demand will be increasing which will result in "interesting consequences."

On future trends in the coal business, Buffett noted in the short-term, the world will use more coal. There is no doubt this will have an environmental impact, however, we will figure out better ways to use coal. The U.S. is very dependent on coal and is using cleaner coal than 20 years ago.

Charlie stated that turning corn into motor fuel was one of the dumbest ideas he has ever seen. The "stunningly stupid" idea is probably on its way out.

DERIVATIVES AND RISK IN FINANCIAL INSTITUTIONS

Warren Buffett said he is the chief risk officer at Berkshire, a position he won't assign to a committee or to mathematical formulas. Buffett runs Berkshire so there won't be a problem even if the world doesn't work the same way as it did yesterday. While Buffett could have employed more leverage to boost returns, he wouldn't sleep as well at night. If you can earn a decent return on capital, why take on additional risk for 1% more return?

He said the large investment banks may be too big to manage the risk they undertook in the way they elected to conduct their business. The risk is very hard to manage as he saw when he inherited General Re's 23,000 derivative contracts. In the very large financial institutions that have endured trouble during this latest crisis, if the CEO knew what was going on with the risk they were assuming, they shouldn't have allowed it. If the financial institution is too big to manage the risk and the government also says the institution is too big to fail, there will be interesting policies.

Charlie exclaimed that it is crazy to allow companies to get too big to fail, especially in this crazy culture of greed and overconfidence in algorithms. It is demented to allow derivative accounting to have become embedded in the financial system. It is too easy for financial institutions to report earnings and assets that are "good until reached for." Charlie continued, "Wall Street believes in the tooth fairy. The accounting profession utterly failed us."

Buffett noted that there was controversy over fair value accounting for financial firms, but he said he would stick with firms that report on a fair value basis as it is better to have the discipline of valuing assets at market rather at cost, which could be fictitious.

Buffett said that the Federal Reserve did the right thing in regards to the near collapse of Bear Stearns. If Bear Stearns had failed, the counterparties of \$14.5 trillion of derivatives would have had to undo their contracts promptly which would have resulted in a "spectacle of unprecedented proportion." There would have been other investment banks that would have gone down. Many didn't believe they could not borrow on a secured basis. However, if the world doesn't want to lend you money, they won't--no matter how much the interest rates are. During this chaos, the investment banks had to wonder if others would think well of them the next day.

Buffett stated that CDO's squared were nuttiness squared as you would have had to read 750,000 pages of prospectuses to have known what were in these deals. Charlie added that there is much that goes on in the bowels of the financial industry that is not pretty.

BUYING WITH A MARGIN OF SAFETY-PETROCHINA AND MARS

After reading PetroChina's annual report, Buffett thought PetroChina was worth \$100 billion. With the stock selling for \$35 billion, there was no need for Buffett to talk to management. He also didn't need to refine his analysis any further. Buffett really likes

investments where you don't have to carry out the analysis to three decimal points to make the investment work. It is like when someone who weighs 300-350 pounds walks in the room. You don't need to know how much they weigh to know they are fat. Likewise, Buffett looks for "fat" investments. When PetroChina's valuation reached \$275-\$300 billion, it approached Buffett's assessment of full value so he sold the stock. At one point, PetroChina's stock valuation made it the most valuable company in the world. If PetroChina sold once again at a significant discount to its intrinsic value, Buffett would buy it again.

Charlie added that Berkshire probably has lower due diligence expenses than anyone in America and with better results. At Berkshire, they think like engineers and always want a margin of safety when making investments.

Buffett commented further that if you think the auditor knows the business better than you, then you are in trouble. He said if he already didn't know the Wrigley's and Mars businesses when the phone call came in, he wouldn't have made the recent deal. Digging into details like lease terms just don't matter. Many miss deals due to too much due diligence. In terms of big deals, people will come to Berkshire when they want to get the deal done fast. Mars only wanted to deal with Berkshire, since they knew Berkshire had the \$6.5 billion available and that Buffett would follow through with the deal whether there was another 911 attack or whether Ben Bernanke ran off to South America with Paris Hilton.

BERKSHIRE AFTER BUFFETT

When asked what safeguards were in place to ensure that Berkshire wasn't raided by LBO firms looking to sell off pieces of Berkshire after Buffett's death, Buffett noted that his stock will be sold gradually for 12 years after his death. (He has told his lawyer to let his estate last as long as possible, which is like telling a teenage son to have a normal sex life.) He expects Berkshire's market value will be much larger than it is now. A \$600-\$700 billion or bigger takeover would thus be pretty unlikely as Berkshire will be one of the largest companies in the U.S.

Charlie joked that Warren told him what he wants said at his funeral is "That is the oldest corpse I have ever seen!"

BRANDS

While Buffett wouldn't comment specifically on his purchase of Kraft, he noted that most food companies are good businesses that earn good returns on tangible assets. Branded products are good assets. For example, it would be impossible for a competitor to take on a product like Coca-Cola around the globe. A company like RC Cola can't take away market share and Richard Branson's Virgin Cola just didn't work due to Coca-Cola's strong brand. Buffett feels good about branded products. If you don't pay too much for a strong brand, you will do OK with it as an investment.

OLYMPICS

When asked if Coca-Cola should boycott the Olympics in China, Buffett said he thinks it is a mistake to not allow countries to participate in the Olympics.

Charlie added that those who are distressed by imperfections in China should recognize that China is moving in the right direction and also recall that it wasn't that long ago that the U.S. had questionable policies in regards to rights for women and blacks.

INVESTING IN BANKS

Buffett said he doesn't invest in banks by looking at their market capitalizations but rather at looking at the culture of the bank, which is driven by the CEO. At Wells Fargo, U.S. Bancorp and M&T Bank, Buffett understands the DNA of the institutions. This doesn't mean they are immune to problems but that they are immune from institutional stupidity.

Charlie added, "There are more banks than bankers, which says something!" Given that many bank stocks have been pounded during this latest financial crisis, prospecting for investment ideas in the banking area is prospecting in the right direction.

NUCLEAR PROLIFERATION

Buffett noted that nuclear proliferation is the greatest problem of mankind. The genie is out of the bottle in terms of nuclear knowledge with many that wish ill on their neighbors. Given these weapons of mass destruction and the threat to human mankind, we should do everything possible to reduce access to materials to construct nuclear bombs. As Einstein said, "The release of atom power has changed everything except our way of thinking." We are very lucky that nothing major has happened already, and it is paramount for the administration to address the issue.

BASEBALL TEAMS AS INVESTMENTS

When a young man asked Buffett if he might buy the Chicago Cubs, he noted that it has been a good investment to buy baseball teams especially as television has expanded the stadium. However, he said that he didn't think he would buy a team today although many rich people like to buy baseball teams as it makes them "instant celebrities."

SAVING

Buffett noted that the savings rate in the U.S. has fallen significantly while the propensity to save in Asia is almost innate. If investors own Berkshire stock, they are automatically saving through Berkshire's retained earnings. As a nation we are importing more than we are exporting. However, since America is so rich our standard of living will continue to improve although nowhere near the rate of improvement that

will be seen in China or Korea due to their savings. However, given that the U.S. is already so rich, perhaps we don't need to save as much.

ECONOMIC STRESS

Buffett commented that this period of economic stress started with subprime mortgages and then found a way to spread to other areas. He doesn't remember a real estate bubble that has sent out shock waves like this one. Stupid things were done that won't be done again soon, however, some variation will occur in the future.

Charlie added that this period has been a "foolish mess." He had thought he had seen it all during the dot-com bubble when asinine ideas like the Internet delivery of groceries spawned companies like Webvan. However, Webvan was a smarter business than some of the mortgage businesses.

CREDIT DEFAULT SWAPS

Buffett noted that there is \$60 trillion of notional value of credit default swaps (CDS), which basically provide insurance against a company going bankrupt. Berkshire holds credit default swaps related to various high-yield indices. While Buffett believes corporate default rates will rise, he doesn't think CDS will lead to a financial meltdown since for each person that loses on a swap, someone else wins.

Charlie differed in his opinion as he thinks we could have a big mess out of CDS as there are big incentives to see somebody fail although a CDS is not as dumb as sweeping bums off Skidrow to give them a subprime mortgage. He likened CDS to having life insurance on someone you don't know, which used to be illegal due to the incentive to knock that person off. Big payoffs in unregulated markets are crazy.

DIVIDENDS

Buffett restated that as long as Berkshire can create more than \$1 dollar of value for each \$1 retained, then the company won't pay out a dividend as shareholders will be better off by selling part of their holdings if they need income. However, for businesses that can't do that, then it does make sense to pay dividends. A good example is See's Candies which pays out everything it earns to Berkshire to be reallocated.

Charlie added that one day Berkshire will pay a dividend, but right now Berkshire is like the man that exclaimed, "God give me chastity, but not yet!"

INVESTMENTS IN CHINA AND INDIA

Buffett said he expects that over the next 3-5 years he will buy companies of size outside of the U.S. However, in looking at developing insurance companies outside of the U.S., restrictions in India and China will likely prohibit him from doing insurance business in those countries.

PHARMACEUTICAL COMPANIES

Buffett said he doesn't know how to evaluate the pipelines of pharmaceutical companies he owns like Johnson & Johnson and Glaxo, and he doesn't try to assess the pipeline. However, he believes if he buys a group of pharmaceutical companies at a reasonable price, Berkshire should do well over a 5-10 year period.

Charlie added that Buffett has a monopoly on their joint knowledge of pharmaceuticals.

HOPES FOR BERKSHIRE

Buffett said he hopes that Berkshire will continue to deliver decent performance and maintain a culture which is regarded as the best home in the world for large, family-owned businesses even 20 years from now. He also hopes that Berkshire will live far beyond Buffett's tenure and thinks it will due to the finest board of directors and managers around.

Charlie added that he hopes that Berkshire, as an exemplar, has more influence on making changes in other corporations.

Buffett ended the meeting by joking that he also hopes that Berkshire ends up with the oldest living managers.