BERKSHIRE HATHAWAY ANNUAL MEETING ON MAY 5, 2007

I was one of the 27,000 folks who flocked from around the world to hear the Oracle of Omaha speak at this year's Berkshire Hathaway annual meeting. A glowing introduction of Mr. Buffett was made to start the meeting…followed by Jimmy Buffett bounding out on the stage to start the meeting by singing "Wasting Away again in BerkshireHathawayville." Some of the lyrics included

Wasting away again in BerkshireHathawayville,
Searching for some good companies to buy,

Who is the wizard that thought of the lizard?
Some people claim that Charlie Munger is to blame…

Then Warren Buffett and his partner, Charlie Munger, made their appearance on stage to discuss first quarter results and answer shareholder questions for six hours. Here are a few of my notes on the ensuing discussions:

First Quarter Results
Buffett noted that Berkshire reported a good first quarter, although insurance earnings are expected to go down this year compared to the extraordinary period last year for the insurance business when no catastrophes happened resulting in minimal losses. Over time Berkshire hopes to break even on its underwriting with profitable years like last year offset by expected losses in typical years. With Berkshire's float at an all-time high, Berkshire's mix of business is such that the insurance business should do better than in the past. Most of the non-insurance businesses did will although those businesses serving the residential construction market, such as Shaw, Johns Manville, and Acme Brick, did get hit by the housing downturn. Buffett is guessing this downturn will continue for some time. Overall, Berkshire has the greatest group of managers and shareholders ever. Charlie Munger made special mention of Iscar, whose plant they visited in Israel last year. He noted Iscar is a great, great company, whose manufacturing facilities were more automated than anything he had ever seen.

Private Equity
In regard to the private equity bubble, Buffett joked that things have become so competitive that he has started to cry at the difficulty in finding anything to buy. On a more serious note, he didn't consider the private equity frenzy a bubble that will suddenly burst as many investors are unable to leave their investments due to long lock-up periods. It also will take many years for the score of the private equity results to be put on the scoreboard. The activity in the private equity arena may slow if yields on junk bonds rise and credit spreads widen. However, as long as the private equity groups can collect fat fees and raise money, they will have a compulsion to invest the billions being raised so they can collect even more money. In contrast, Berkshire buys to hold companies forever, and the math has to make sense to do a deal. Berkshire doesn't get paid on activity. Charlie added the private equity activity can continue to go on for a long time…even after folks are in a state of revulsion.

International Investments

A German shareholder mentioned that John Templeton had once said that Warren Buffett was narrow-sighted in not making more international investments. Buffett acknowledged that might be a valid criticism although Berkshire has long invested in companies like Coke with strong international businesses. Berkshire for the most part has not been on the radar screen of international companies seeking to sell their entire businesses. Iscar, however, found Berkshire, and the publicity surrounding that deal will enable Berkshire to get better known internationally. Iscar is also planning additional activities to help Berkshire be better known in foreign markets. Berkshire does own a number of non-U.S. securities, including two based in Germany. Certain markets like Germany and the U.K. require Berkshire to report its position once it acquires more than 3% of a stock. Telling the world what Berkshire is buying is not a favorite activity, so the 3% reporting requirement is a real negative on making international investments. Berkshire does, however, hold a half-dozen foreign stocks including 4% of Posco, which is now worth more than $1 billion. Since Berkshire doesn't have to reveal its international stock holdings in the 13-F filing with the SEC, most of the international investments aren't picked up. Charlie added that Templeton made a fortune by investing in Japan early, but noted that Berkshire did alright during the same time period with domestic investments.

Executive Compensation

When Buffett didn't hear the question clearly, he told a favorite joke about how he was concerned about Charlie's hearing. To test Charlie's hearing, a doctor told Buffett he should ask Charlie a question from across the room, and then get closer and closer until Charlie could hear the question and answer it. So from across the room, Buffett asked Charlie if Berkshire should buy GM at $30. Not hearing an answer, he moved halfway across the room and asked Charlie again. Then he stood right next to him, and asked Charlie directly in his ear whether Berkshire should buy GM at $30. Charlie replied, "For the third time, 'Yes'!" Charlie then told Buffett that the question was on executive compensation, and said "Now that you know the question, you can solve it!" Buffett then responded that CEO compensation has a natural tendency to increase due to ratcheting up comparisons with other CEO's and the lack of a bargaining process between the board and the CEO in compensation committee negotiations. He noted again how he had served on 19 boards but was only asked once to serve on a compensation committee, which regretted that they had him on the committee. He said management is looking for Cocker Spaniels not Dobermans to put on comp committees. Envy drives up the ratcheting process in rising compensation. Envy is one of the dumbest of the deadly sins as it only results in a grinding in the stomach of those envious. Buffett noted that at least there is some upside to gluttony as he reached for another piece of peanut brittle and joked that he would let Charlie explain the upside of lust. Expressing his disdain for compensation consultants, Charlie noted that a child once asked his mother why she told the man at the door that the man of the house was in prison for embezzlement. The mother replied because she didn't want to admit he was a compensation consultant.

Private Jets
A shareholder asked for comments on a recent study which revealed that companies with private jets underperformed by 4% other companies. Charlie proclaimed, “We are solidly in favor of private jets!” Buffett joked that Charlie only used to travel by bus and then only when he could get the senior citizen’s discount, but now even he has purchased a membership in NetJets. Buffett said Berkshire is better off because they use private jets to do deals, and that private jets have been a valuable business tool for Berkshire. However, he did acknowledge that private jets have been misused at other companies. Charlie stated further that if trappings of power are misused, then you could indeed find a correlation with poor performance and private jets. As Buffett reached for a piece of fudge, he joked that See’s Candy was a big part of Berkshire’s corporate benefits.

Credit Contraction
A shareholder questioned what impact a credit contraction and higher interest rates would have on Berkshire. Buffett noted that Berkshire often benefits from times of chaos in the markets as they have liquidity when others don’t with Charlie chiming in that Berkshire made a quick $3-$4 billion the last time there was a credit crunch. Buffett doesn’t think we will see a significant credit contraction as the Fed will prevent huge credit contractions, although there may be some external factor or shock which feeds on itself that will result in wider credit spreads. Buffett mentioned how in 1998 the credit markets seized up following the Long Term Capital Management fiasco. Even though there were high IQ’s and lots of cash at Long Term Capital Management, extraordinary things happen when people panic. Noting that history doesn’t always repeat but rhymes, he expects we will have something else rhyme with 1998.

High Corporate Profits
Buffett admitted he was amazed that corporate profits as a percentage of GDP have remained at such high levels. Typically, corporate profits represent 4%-6% of GDP, but have jumped upward to 8% today. Given this high level, he would have expected taxes to have risen, but there has been no reaction by politicians. Many companies are now earning 20%-25% returns on tangible equity versus 4% bond rates. This is extraordinary and something never seen before. Corporate America is living in the best of all worlds. Buffett doesn’t know what will bring it to an end, but he doesn’t expect it to persist. Charlie noted that profits are not high in the manufacturing and retail sectors but in the financial sector such as banks, private equity groups, and mutual funds. With banks levered up that explains their higher returns on equity. Financial sector returns are high as consumer credit has been pushed to extremes never seen before. Other countries have had tremendous collapses following such extremes, like Korea in 1997-1998. Charlie muttered now is not a time to be swinging for the fences.

Short-Selling
When questioned about naked short selling and failure to deliver stock borrowed in short selling, Buffett seemed to shrug off the issue. He said he has no problem with short selling stock with shorts having the tougher time of it in the investment world. He said he wished more folks would sell short stocks, including Berkshire. He said when

USG’s stock price got hammered, Berkshire lent out their USG shares to short sellers and collected a large premium. Those shorting USG at $4 haven’t fared very well. Charlie added that delays in delivering stock represent tremendous slop in the clearing process system which is like having slop in atomic plants.

Gambling Companies
When asked about gambling companies, Buffett noted that daytrading is close to gambling. He acknowledged that folks like to gamble. He even bought a slot machine for his kids to play with when they were younger, noting that he usually had their allowance back by nightfall. On a more serious note, he proclaimed that gambling is a tax on ignorance for those who don’t understand the odds. With lotteries, governments are preying on the weakness of people rather than serving them. While lotteries may provide some tax relief, they are not a reflection of government at its best. Charlie added that casinos use psychological tricks to cause people to hurt themselves. He called gambling a grievous business and firmly stated you won’t see a casino business in Berkshire Hathaway.

How to Become A Better Investor
In responding to a teenager asking how to become a better investor, Buffett advised him to read everything he could. Buffett noted that when he read Ben Graham’s work when he was 19, it set the framework for the rest of his investing career. He said it is important to fill your mind with competing thoughts and then sort out what makes sense. Then it is important to get experience in investing by investing real money, noting that the difference between investing on paper and investing with real dollars is akin to the difference in reading romance novels and doing something else. Charlie advised that one should always ask “What do you own, and why do you own it?” Buffett chimed in that you should take out a yellow pad of paper and write down the business reasons why you are investing in a company.

Margin of Safety and Valuations
Buffett favors businesses where he “knows the answers.” If he can’t determine what the nature of a business will look like in 5-10 years, he won’t invest in it. When you invest in great businesses, you don’t need huge margins of safety in your purchase price compared to the underlying business value. While he would love to find $.40 dollar bills, if you invest in a superior business you can pay close to $1 for $1 worth of value. There are rare times when you can buy wonderful businesses for a quarter of their value like he did a few years ago with his personal investments in Korea. He seeks businesses with high returns on capital and good management that he can hold for a long time. He doesn’t invest in risky businesses and then try to compensate with a large margin of safety. Charlie added that margin of safety boils down to getting more value than you are paying. He said if you don’t understand algebra, you should take up something else rather than investing.

When valuing a business, you must determine what discount rate to use in discounting future cash flows. Buffett want to obtain significantly higher returns from the business than he can obtain from government bonds. If bonds are yielding 2%, he’s not interested in a stock that would provide 3%-3.5% returns. With current bond rates at 4.75%, he is looking for stock returns which are far more than that. He wants enough of a stock return that he can feel very comfortable with the business if the market closed or if interest rates rose 1%-2%. Charlie added that serious errors are made by people treating hurdle rates as the Holy Grail. There is no substitute for thinking of a variety of investment options and the returns they may generate. If you know a certain investment will provide a sure 8% return, then it doesn't make sense to be tempted by a risky investment offering an 8.5% return. You should make investment decisions based on opportunity costs. Buffett added that most presentations made to Boards of Directors result in nonsense figures for the most part. Charlie chatted about a private partnership which claimed they were seeking to obtain 20% returns. When Charlie asked the individual how he arrived at the 20%, he said he wouldn't get any money to invest unless that is what he claimed he could earn. Buffett then said many pension plans believe in such nonsense as they stretch for returns even though they should know better that no one running big money can make 20% consistently.

Solutions to Healthcare Problems

Charlie said the problems are too tough and not something he and Warren can solve. Buffett added they prefer easy problems like investing. Berkshire does very little in healthcare insurance, but would look for low distribution costs.

Intrinsic Value

The intrinsic value of Berkshire or any company is the discounted value of the cash that can be taken out of the business during its remaining life. Acknowledging that the calculation of Berkshire's intrinsic value is not easy, Buffett does provide information in the annual report to help investors value businesses Berkshire presently owns. Berkshire owns lots of marketable securities currently worth more than $80,000 per share. In addition, Berkshire owns operating businesses with earnings provided to investors. However, in computing Berkshire's value, one must also determine what Berkshire will do with billions of dollars they will invest in the future. Back in 1965, the intrinsic value of Berkshire's textile business was worth $12 per share. Berkshire used the operating cash flows from the textile business to buy other businesses notably the insurance businesses. If management is skilled with the earnings they retain, then value will be created. If management is inefficient in capital allocation, then the business will be worth less. Buffett noted Berkshire's strong business culture which he said will remain intact for a long time. As far as capital allocation, Berkshire will do just fine as long as management doesn't do anything dumb. Berkshire's board will reject irrational ideas and the "animal spirits" which often arise in making acquisitions.

Charlie added that Berkshire's balance sheet has grown to an extreme level compared to its small start due to Buffett's impressive investment results. Buffett became a learning machine which resulted in these extraordinary results. Charlie added that Buffett continues to improve with age, noting that there is an enormous advantage that comes from practice over the long run. He stated more companies should copy Berkshire. He said most company's mandatory retirement ages don't make much sense, as they just pass the baton from one old codger to the next.

Charlie commented further that there is no one easy method to determine intrinsic value. It is best to use multiple techniques and multiple models. Lots of experience is also very helpful. Buffett added that one should understand the competitive position of a business and understand how the business dynamics will change in the future. It is important to evaluate the ability of management to distribute future cash or reinvest the cash at high rates, which is what Berkshire is doing. Buffett is working hard to ensure that Berkshire in the future will have the ability to distribute significant amounts of cash even though they haven't distributed any cash yet.

Both Charlie and Warren emphasized staying within your circle of competence when investing. Charlie said Berkshire throws almost all investment decisions into the "Too Hard" pile and only focuses on making easy decisions. Buffett laughed that he likes walking over one-foot hurdles and stays away from the seven-foot bars.

Derivatives

Buffett said derivatives are not inherently evil, and that Berkshire uses them. Buffett was planning on discussing 60 derivatives contracts he manages with the Board during the board meeting. However, derivatives do put more leverage in the financial system, which could lead to unpleasant things happening in the market. In 1987, the forced sales that resulted from portfolio insurance contributed to the market's more than 20% decline in one day. Portfolio insurance, which essentially was automated stop loss orders, was a joke which just poured gasoline on a fire and resulted in a "doomsday machine." Portfolio insurance is nothing compared to today's "crowded trade" when participants will all want to sell in response to some event. Given the leverage in today's market, it could create chaos. Charlie added that the accounting for derivatives is deficient with most accountants not knowing how stupid they are behaving.

Short-termism

Buffett believes the short-term mindset many investors have is unhealthy and that it is a fool's game to trade daily. However, the electronic herd believes they need to make daily trading decisions, which has resulted in portfolio turnover of 100% or more compared to 15-20% years ago. Even bond turnover has increased dramatically.

Search for Investment Successor

Buffett said Berkshire is not looking for someone to teach in searching for a chief investment officer but somebody who already knows how to invest. He wants someone with a good investment record that has the ability to scale up to invest more than $100 billion with results mildly better than the S&P, such as 1%-2% better over time. He wants to make sure he finds somebody that "doesn't blow it." They've seen plenty of smart people do that. He wants somebody who sees risks that others don't see. In all likelihood, he will find out of the 700 applications several people who he will hire to manage up to $5 billion each to see how well they do. He said this isn't exactly a new process for Berkshire as Buffett had to find somebody to replace him when he wound up his partnership in 1969. Many of his shareholders then went to Bill Ruane and the Sequoia fund, which proved to be a terrific steward of their capital. In 1979, he found another highly successful investor when he hired Lou Simpson to manage Geico's investments.

Global Warming
Buffett said global warming is a serious problem in which we should err on the side of the planet. Berkshire's insurance business will be impacted by global warming if it results in increased frequency and intensity of hurricanes. Katrina was not a worse case scenario of what might happen. While Berkshire is plenty cautious about global warming, they will manage the business so that it won't have a significant financial impact on Berkshire's business. Charlie commented that he is more comfortable being a little bit warmer than colder and doesn't see global warming as the utter calamity some make it out to be. He wryly noted that one would need to be a "pot-smoking journalist" to see it that way.

Chinese Banks
Buffett said he has zero insight into Chinese banks and thus passed on an opportunity to invest in them. Charlie added that China's economic progress has been made despite banking practices that would make other bankers shudder, although the Chinese banks may now be improving. Buffett added that strong economies can overcome banking problems just as the U.S. did during the S&L crisis.

Stocks vs Bonds
In 1969 when Buffett closed up his partnership, he said the prospective returns on stocks were equal to what one could obtain on municipal bonds. Today, he doesn't think that is the situation. If he had a choice of investing in a 20-year bond or stocks, he would choose stocks. While he would rather buy stocks cheaper, he would also rather see bond yields higher. Relative to bonds, stocks currently appear more attractive which is why he purchased $5 billion of equities during the first quarter. A follow-up question asked about his 1999 Fortune article in which he advised investors to lower their expectations on future stock returns. Buffett stated back then (at the height of the tech bubble), he felt people were extrapolating high returns and were bound to be disappointed. He repeated that today he feels stocks offer higher potential returns than you could get from 4.75% bonds and that while he still doesn't have high expectations for stocks, he prefers them over bonds. Charlie added that Warren was right back in 1999 and he is right now in advising folks to have modest expectations. Buffett concluded that if you buy good businesses and hold them for a long time, you will do just fine.

Silver
Buffett joked that he bought his silver position too early and sold it to early…other than that it was a perfect trade. Charlie added the trade demonstrated just how much they know about silver. Buffett added that commodities respond to supply and demand, and that there is no silver conspiracy as some suggest.

Investing Small Sums
For small investors, there are many more opportunities to invest $10,000 than $100 billion. Buffett stated, "If we had small sums to invest, we would invest differently." Charlie growled, "No point in thinking about that now." Charlie later mentioned that the best investment opportunities may be found where the market is most inefficient.

Subprime Market
The subprime market is a result of folks not being able to afford homes. Buffett stated that dumb lending and dumb borrowing occurred in the subprime market on the belief that home prices could only go up. The resulting problems in the subprime market will cause plenty of misery for those involved, but it shouldn't spill over into the overall economy unless unemployment rises significantly or interest rates rise dramatically. Buffett concluded that he doesn't think the subprime woes will trigger a major impact or be a huge anchor on the overall economy. Charlie added that a combination of sin and folly resulted in the subprime mess with accountants letting profits be shown on loans when they shouldn't have. He further added that he didn't know how those who were making subprime loans to the undeserving poor or the overstretched rich could face themselves in the mirror…as they would find a face looking back at them that was evil and stupid. Buffett added that securitization of the loans accentuated the problem similar to what happened in the manufactured housing industry a few years back. He noted that the flippers will get flipped but in a different way than they may have expected.

Managed Futures Funds
The form of an investment vehicle whether it is private equity, a hedge fund or a managed futures fund doesn't produce value. What creates value is the management of the funds. Berkshire makes sense since they have the ability to invest in any asset class. A managed futures fund shrinks the possibilities of investments. Charlie added that he believes the average return of a managed futures funds is between lousy and negative. Buffett said it is a mistake to get sold on something like a managed futures fund as a great area of opportunity. Brains provide the opportunity not the investment form.

Insurance Regulatory Changes
Following Katrina, many insurance companies cited exclusions in the policies for wind or water damage to not pay claims. Buffett said when folks buy insurance they don't read every line item and their insurance agents don't always point out the fine print. He said any exclusion on coverage should be disclosed in big and bold type. Buffett said government interference or new regulations will thus occur when folks think they haven't been treated fairly. Insurance companies in turn will then be reluctant to write new insurance as it may become too expensive to provide insurance coverage for hurricanes. This has resulted in states like Florida having to self-insure by providing citizens with coverage at lower prices. Under new regulations, Florida plans to provide $30 billion in coverage. The problem occurs if a $100 billion storm hits. Florida may then look to the federal government for help. This leads to a tussle on whether folks in Nebraska should subsidize the insurance costs of those choosing to live in Florida.

Funds for Future Acquisitions
Even though Buffett spent $5 billion on equity investments in the first quarter, Berkshire still has plenty of funds for future acquisitions of entire businesses. Buffett cited the TTI acquisition that closed in the first quarter as a very attractive acquisition. With $46 billion in cash, he is as prepared as ever to purchase more businesses and could sell part of his investment portfolio to fund even larger acquisitions if they should arise. Charlie repeated that Berkshire won't make the returns like they did 5-10 years ago, and investors should have more modest expectations.

Volatility as a Measure of Risk
Buffett said volatility is NOT a measure of risk. While beta is a nice mathematical tool, it is wrong as a measure of risk. Beta is, however, useful if you want a career in teaching. Beta may point out that the cheaper something becomes, the riskier it is which doesn't make sense. For example, when farm prices in Nebraska fell from $2,000 an acre to $600 an acre, the beta increased which would indicate that is was riskier to buy a farm for $600 an acre than it was for $2,000 an acre. Risk comes from the nature of certain types of businesses and from not knowing what you are doing. Buffett cited his investment in Dexter Shoes as an example of his not understanding the nature of the business, which resulted in him making a terrible mistake in investing in the company through the exchange of Berkshire stock. Charlie added that 50% of what is taught in universities, such as concepts like beta, is twaddle. He noted that even with high IQ's, smart people can do very dumb things. He says you should try to understand why they do the dumb things and who they are, so you can avoid them.

Evaluating Integrity of Management
Buffett stated that when he made the $5 billion in stock investments in the first quarter that he had never met management of those companies or spoken to them. You can learn a great deal about management by reading their letter to shareholders. If there are dishonest or misleading messages in the letter, you should avoid those companies. If the letter looks like it was written by an outside consultant, you may also want to avoid the company. You should seek to invest in companies where management is willing to directly talk to investors through their letters to shareholders. However, when Buffett buys an entire business, that is different, and he needs to meet management. Charlie added that if the quality of a business is good enough, it will carry a lousy manager. However with a lousy business, even a good manager may not make much of a difference. Buffett cited Ford as an example where even a first draft manager may have a tough time due to outside factors like labor unions.

PacifiCorp Dam Removal
A couple of moving questions were asked about the impact PacifiCorp's dams are having on the salmon population and the livelihood of the Indians and fishermen who rely on the salmon. Buffett responded that there have been 27 different proposals put forth on what to do about the dams that FERC is evaluating. As a public utility, PacifiCorp will respond to public policy and take action consistent with the guidelines issued.

Merger of NYSE and Euronext
Buffett said he didn't know much about the proposed merger but expected that if it goes through it should result in narrower spreads and reduced costs while making trading more efficient. Charlie succinctly responded that he didn't know anything about the merger. Buffett laughed and said, "I don't either, but I took a whole lot longer to say it."

Trust
A shareholder from Seattle joked that he could help global warming and save money, if he could ride with Board Director, Bill Gates, in his jet to next year's annual meeting. He then asked, "How do you know the people to trust?" Buffett joked back, "You probably have as good a chance of getting an answer from me on that question as you do on getting a ride on Bill Gates plane!" Buffett said while he couldn't really answer that question, Berkshire has a high batting average (more than 90%) in joining with people they could trust. Charlie added that you should be suspicious of propositions that sound too good to be true like the fellow who only sold fire insurance to companies with bridges under water.

Reviewing Stock Positions
Buffett was asked how often he reviews his stock positions. He said when he had more ideas than money, he would look at the positions all the time as he evaluated the opportunity costs and determined whether he needed to sell something to buy something better. Now with more money than ideas, the opportunity cost is what he earns on cash. He still thinks about all his businesses all the time which is a continuous process to understand the businesses better. However, he isn't reviewing them in order to actively trade them, but to use the daily information he collects about them to make better future decisions.

Abundant Cash
A shareholder noted that Buffett had invested $1 billion in several large cap companies recently and asked why he didn't invest more like $5 billion in each company given Berkshire's abundant cash. Buffett noted that if he acquires more than 10% of a company, he faces some restrictions on selling a position due to short-swing profit rules. He stated that subsequent to year end he has added to several of the positions he took in 2006 by several billion dollars. Charlie added it is not as easy as it looks to buy big positions as there is no easy way to move elephants around. Buffett commented further that he can often buy up to 20% of the trading volume on large purchases without pushing the stock price up, but Berkshire is a big ocean liner which creates some difficulties in placing trades.

Role Models
In response to a question on who their present day role models are, Buffett said he didn't want to comment as he would leave somebody out. He acknowledged that choosing your heroes is very important. When one marries, they should always hope to marry up in stature and hope their spouse doesn't mind marrying down. Charlie added

that one should not restrict themselves to picking living people as mentors noting that some of the best heroes are dead. (Ben Franklin probably tops Charlie's list.)

Ethanol
Charlie said that running cars on corn in one of the dumbest ideas he has ever seen. He noted that the higher corn prices are driving up the cost of food, and the energy used to make ethanol is more than the cost savings from using it. Buffett joked that they would have to smuggle Charlie out of Nebraska.

Inflation Protection
Buffett stated that the best inflation protection is one's own earnings power. He doesn't consider metals or other commodities as good inflation hedges. He thinks wonderful businesses like Coke, Snickers, and Hershey provide better inflation protection. Any business with low capital requirements that produce products people keep wanting to buy will enjoy pricing flexibility.

Railroads
Buffett's recent billion dollar investment in Burlington Northern and the mention of other railroad investments prompted a question on the industry. Buffett noted that the competitive position of the railroad industry has improved relative to trucks as oil prices have increased. Higher oil prices hurt truckers four times more than the rails. The rails have also negotiated better labor costs. There isn't as much capacity in the railroad industry as there was 30 years ago when the rails were a terrible business. While the rails are a better business today, they should earn decent returns but not great returns as the business still is capital-intensive.

Best Way for a 10-Year Old to Earn Money
In response to a 10-year old girl's question on the best way to earn money, Buffett mentioned his paper routes. He noted by the time he graduated from high school, he had operated 20 different businesses, the most successful being a pinball business. He stated that there was a study which showed that the best correlation of success in business was with the age one started their first business. Charlie noted that one shouldn't just focus on compounding money but also on compounding their mental interests. He said he sold the best hour of the day to himself to improve his mental game. Charlie then added that if you make yourself very reliable and stay reliable, then it will be hard to fail at anything you want to do.

Competitive Position
Buffett thinks Berkshire is in a good competitive position with the group of businesses they own for the world we face today. While Buffett doesn't really buy businesses based on world trends, he does think businesses with high labor requirements will face difficult times. He doesn't want to invest in businesses where the competitive position may be eroded away. He prefers to deal from strength with good management teams at the right value. Charlie added that Berkshire learned the hard way about how foreign labor could hurt their shoe businesses. In regards to Berkshire's shoe business investments, he quoted Will Rogers: "There are three kinds of men. The ones that learn

by reading. The few who learn by observation. The rest of them have to pee on the electric fence for themselves."

Weak Dollar
Buffett stated he thinks the dollar will decline further in value. In the past, Berkshire benefited by this belief through investments in foreign exchange contracts until the carry cost became too expensive. Now Berkshire is buying companies that earn lots of money in foreign currencies. He clarified, however, that the weak dollar is just one factor in making investment decisions. He teased that Berkshire currently is only involved in one foreign currency trade which would surprise us and that he would tell us about it next year. Charlie added that despite this record decline in the value of the dollar, Costco dollar inflation has been virtually zero. While U.S. oil prices have doubled from $30 to $60 per barrel, oil is up only about 25% in Euro terms. Buffett noted that currency will matter more to Americans in the future as it was something they never really had to think about before.

Board of Directors
Buffett stated that in the past, Board of Directors were viewed as little more than potted plants as management really didn't want much input from the Board. Today with the change in regulations, the Board has to be involved more in the management process. The overwhelming responsibility for the Board is to make sure they have the right CEO in place and that there is no overreaching by the CEO. The Board also needs to bring independent judgment on reviewing potential acquisitions. Charlie commented that big deals companies make usually are to the contrary of the best interests of the shareholders on the acquiring company's side. He growled further that the self-serving delusional nature of those with high IQ's is amazing. Buffett agreed saying that companies need to weigh what they are giving away to make sure they are getting more in value than what they are giving. Once again, he noted how Dexter Shoes was the dumbest deal he ever made at Berkshire. Buffett concluded by stating that Berkshire has a terrific Board of Directors who all possess significant ownership in the company through shares they purchased in the open market not by shares that were given to them.

Deal Partners
Buffett said Berkshire doesn't want to do deals with partners as they have enough money to do deals on their own. Charlie reminded him that they did successfully do a deal with Leucadia who brought the deal to them. Buffett agreed saying he would do more deals like that and with the managers of the companies they already own.

Commodities
A shareholder noted that Berkshire appeared to be increasing its exposure to commodities through investments in oil (PetroChina), steel (Posco), and rails (an agricultural play). Buffett responded by saying he has no opinion on commodities and very seldom does. He invested in Posco because it is one of the best steel companies and was selling for about 4-5 times earnings when he purchased it with a debt-free balance sheet. It also served as a play on the Korean won. Instead of commodities, Buffett prefers to invest in companies which generate very high returns and require little

capital to operate…citing See’s Candies as a good example. Charlie echoed the comment saying Berkshire invests in businesses not commodities!

Newspapers and Dual-Class Stocks

A shareholder questioned whether the dual-class of newspaper stocks like Dow Jones, The New York Times and The Washington Post have resulted in the poor performance of the businesses. Buffett stated that the woes of the newspaper industry had nothing to do with the holding structure of the companies. He said the newspaper world has changed due to the Internet. The Buffalo News has seen their earnings decline 40% from peak earnings despite being one of the better newspapers in the country. Charlie commented that shareholders stomping their feet and insisting that company’s change their dual-status policy which was in place at the time they purchased the stock are immature.

Divestment of PetroChina

In response to the proxy proposal that Berkshire divest its position in PetroChina, shareholders voted 98% against the proposal. A discussion on the issue was held as part of the business meeting.