BERKSHIRE HATHAWAY ANNUAL MEETING 2018

Edited Transcript provided by CNBC:

1. Buffett opens a box of peanut brittle for Munger

WARREN BUFFETT: Good morning.

VOICE: Warren and Charlie, we love you! (Applause)

WARREN BUFFETT: I'm Warren. He's Charlie. Charlie does most things better than I do, but — (laughter) — you know, this one's a little tough. Charlie, maybe you can chew on that a while. OK. (Laughter)

At the formal meeting that will begin at 3:45, we will elect 14 directors. Charlie and I are two of them, and I would like to introduce the other 12. I'll do it in alphabetical order.

If they will stand as I announce their name. Withhold your applause. May be hard to do, but give it your best. And when we get all through, then you can let loose, but —

We'll do this alphabetically beginning with Greg Abel, if you'll stand and stay standing. Howard Buffett, Steve Burke, Sue Decker, Bill Gates, Sandy Gottesman, Charlotte Guyman, Ajit Jain, Tom Murphy, Ron Olson, Walter Scott, and Meryl Witmer. (Applause)

2. Accounting-rule net loss "not representative" of the business

WARREN BUFFETT: Let's see. This morning, we posted both our earnings and our 10-Q. And if we can put up slide one, you can take a look at what was reported.

And as I warned you in the annual report, a new accounting rule was introduced at the beginning of this year. And it provides that our equity securities, whether we sell them or not, are marked to market every day.

So we can have a gain or loss of a couple billion dollars in our equity securities portfolio, and that day, according to the accounting principles now in effect, which are a change, will be recorded as making a couple billion dollars that day or losing a couple billion.

And I told you that would produce some very unusual effects from quarter to quarter. And it further explains why I like to release our earnings early Saturday morning and — as well as the 10-Q — to give people a chance to read through the explanation.

Because if you just were handed this with a TV monitor, you know, at 3:30 in the afternoon or whatever it might be, you would report the net earnings figure, understandably, very quickly. And it really is not representative of what's going on in the business at all.

So, if you look at the figure of operating earnings, which is what we look at, we actually earned a record amount for any quarter we've ever had.

And that includes no realized gains or losses on securities, or on the few remaining derivatives we have.

You might leave that slide up there just a little longer. Maybe it is up —

The insurance underwriting — GEICO had a quite a good-sized turnaround in profitability and a good gain, although not as big a gain as last year, which was a record in terms of policies in force and, really, throughout most of our businesses.

And the details are in the 10-Q, which is up on our website now.

And as you can see, the railroad was up significantly, and we had — most of our businesses tended to be up.

Now we were aided in that, in a material way, by the reduction in the federal income tax rate from 35 percent to 21 percent. Our businesses were up significantly on a pretax basis, but the gain was further enhanced by the change in the income tax rate.

So that pretty well sums up the first quarter. We'll probably get some — may well get some questions on it when we get into the question and answer section.

3. Master class: How to think about investments

WARREN BUFFETT: The questions we'll be getting, we've got the press over here, and then we have the analysts on my left. And of course, we have our partners out in front of me. And we will rotate among you.

And the questions we get, as we go through the next six hours or so, will understandably relate to a lot of current events. You know, you will —

We may get asked, and we don't know the questions, but we may get asked, you know, about Fed policy, or whether we're seeing any inflation, or whether business is speeding up or down, or the threats we may face competitively in our businesses as we go along.

And you — anything goes on the questions, except we won't tell you what we're buying or selling. But it really can be a question sometimes of confusing the forest with the trees.

And I would like to just spend just a couple of minutes giving you a little perspective on how you might think about investments, as opposed to the tendency to focus on what's happening today, or even this minute, as you go through.

And to help me in doing that, I'd like to go back through a little personal history.

And we will start — I have here a New York Times of March 12th, 1942. I'm a little behind on my reading. (Laughter)

And if you go back to that time, that — it was about, what? Just about three months since we got involved in a war which we were losing at that point.

The newspaper headlines were filled with bad news from the Pacific. And I've taken just a couple of the headlines from the days preceding March 11th, which I'll explain was kind of a momentous day for me.

And so you can see these headlines. We've got slide two up there, I believe. And we were in trouble, big trouble, in the Pacific. It was only going to be a couple months later that the Philippines fell, but we were getting bad news.

We might go to slide three for March 9th. Hope you can read the headlines, anyway. The price of the paper's three cents, incidentally.

The — and let's see, we've got March 10th up there, as slide — I — when I get to where there's advanced technology of slides, I want to make sure I'm showing you the same thing that I'm seeing in front of me.

So anyway, on March 10th, when again, the news was bad: "Foe Clearing Path to Australia." And it was like it — the stock market had been reflecting this.

And I'd been watching a stock called Cities Service preferred stock, which had sold at $84 the previous year. It had sold at $55 the year — early in January, two months earlier — and now it was down to $40 on March 10th.

So that night, despite these headlines, I said to my dad — I said, "I think I'd like to pull the trigger, and I'd like you to buy me three shares of Cities Service preferred" the next day.

And that was all I had. I mean, that was my capital accumulated over the previous five years or thereabouts. And so my dad, the next morning, bought three shares.

Well, let's take a look at what happened the next day. Let's go to the next slide, please. And it was not a good day. The stock market, the Dow Jones Industrials, broke 100 on the downside.

Now they were down 2.28 percent as you see, but that was the equivalent of about a 500-point drop now. So I'm in school wondering what is going on, of course.

Incidentally, you'll see on the left side of the chart, the New York Times put the Dow Jones Industrial Average below all the averages they calculated. They — they had their own averages, which have since disappeared, but the Dow Jones has continued.

So the next day — we can go to the next slide — and you will see what happened. The stock that was at 39 — my dad bought my stock right away in the morning because I'd asked him to, my three shares. And so I paid the high for the day.

That 38 1/4 was my tick, which was the high for the day. And by the end of the day, it was down to 37, which was really kind of characteristic of my timing in stocks that was going to appear in future years. (Laughs)

But it was on the — what was then called the New York Curb Exchange, then became the American Stock Exchange.

But things, even though the war, until the Battle of Midway, looked very bad and — and if you'll turn to the next slide, please — you'll see that the stock did rather well. I mean, you can see where I bought at 38 1/4.

And then the stock went on, actually, to eventually be called by the Cities Service Company for over $200 a share. But this is not a happy story because, if you go to the next page, you will see that I — (Laughter)

Well, as they always say, "It seemed like a good idea at the time," you know. (Laughter)

So I sold — I made $5 on it. It was, again, typical — (laughs) — of my behavior. But when you watch it go down to 27, you know, it looked pretty good to get that profit.

Well, what's the point of all this? Well, we can leave behind the Cities Service story, and I would like you to, again, imagine yourself back on March 11th of 1942.

And as I say, things were looking bad in the European theater as well as what was going on in the Pacific. But everybody in this country knew America was going to win the war. I mean, it was, you know, we'd gotten blindsided, but we were going to win the war. And we knew that the American system had been working well since 1776.

So, if you'll turn to the next slide, I'd like you to imagine that at that time you had invested $10,000. And you put that money in an index fund — we didn't have index funds then — but you, in effect, bought the S&P 500.

Now I would like you to think a while, and don't — do not change the slide here for a minute.

I’d like you to think about how much that $10,000 would now be worth, if you just had one basic premise, just like in buying a farm you buy it to hold throughout your lifetime and depend — and you look to the output of the farm to determine whether you made a wise investment.

You look to the output of the apartment house to decide whether you made a wise investment if you buy an apartment — small apartment house — to hold for your life.

And let’s say, instead, you decided to put the $10,000 in and hold a piece of American business, and never look another stock quote, never listen to another person give you advice or anything of this sort.

I want you to think how much money you might have now. And now that you’ve got a number in your head, let’s go to the next slide, and we’ll get the answer.

You’d have $51 million. And you wouldn’t have had to do anything. You wouldn’t have to understand accounting. You wouldn’t have to look at your quotations every day like I did that first day — (laughs) — when I’d already lost $3.75 by the time I came home from school.

All you had to do was figure that America was going to do well over time, that we would overcome the current difficulties, and that if America did well, American business would do well.

You didn’t have to pick out winning stocks. You didn’t have to pick out a winning time or anything of the sort. You basically just had to make one investment decision in your life.

And that wasn’t the only time to do it. I mean, I can go back and pick other times that would work out to even greater gains.

But as you listen to the questions and answers we give today, just remember that the overriding question is, “How is American business going to do over your investing lifetime?”

I would like to make one other comment because it’s a little bit interesting. Let’s say you’d taken that $10,000 and you’d listened to the prophets of doom and gloom around you, and you’ll get that constantly throughout your life. And instead, you’d used the $10,000 to buy gold.

Now for your $10,000 you would have been able to buy about 300 ounces of gold. And while the businesses were reinvesting in more plants, and new inventions came along, you would go down every year in your — look in your safe deposit box — and you'd have your 300 ounces of gold.

And you could look at it, and you could fondle it, and you could — I mean, whatever you wanted to do with it. (Laughter)

But it didn't produce anything. It was never going to produce anything.

And what would you have today? You would have 300 ounces of gold just like you had in March of 1942, and it would be worth approximately $400,000.

So if you decided to go with a nonproductive asset — gold — instead of a productive asset, which actually was earning more money and reinvesting and paying dividends and maybe purchasing stock — whatever it might be — you would now have over 100 times the value of what you would have had with a nonproductive asset.

In other words, for every dollar you had made in American business, you'd have less than a penny by — of gain — by buying in this store of value, which people tell you to run to every time you get scared by the headlines or something of the sort.

It's just remarkable to me that we have operated in this country with the greatest tailwind at our back that you can imagine. It's an investor's haven — I mean, you can't really fail at it unless you buy the wrong stock or just get excited at the wrong time.

But if you'd — if you owned a cross-section of America and you put your money in consistently over the years, there's just — there's no comparison against owning something that's going to produce nothing.

And there — frankly — there's no comparison with trying to jump in and out of stocks and pay investment advisors.

If you'd followed my advice, incidentally — or this retrospective advice — which is always so easy to give — (Laughs)

If you'd follow that, of course you — there's one problem. Your friendly stock broker would have starved to death.

I mean, you know, and you could have gone to the funeral to atone for their fate. But the truth is, you would have been better off doing this than a very, very, very high percentage of investment professionals have done, or people have done that are active that — it's very hard to move around successfully and beat, really, what can be done with a very relaxed philosophy.

And you do not have to be — you do not have to know as much about accounting or stock market terminology or whatever else it may be, or what the Fed is going to do next time and whether it's going to raise three times or four times or two times.

None of that counts at all, really, in a lifetime of investing. What counts is having a philosophy that you've — that you stick with, that you understand why you're in it, and then you forget about doing things that you don't know how to do.

4. Nothing's changed - Buffett's still "semi-retired"

WARREN BUFFETT: So with all those happy words, we will move on and start the questioning, and we'll start with Carol.

CAROL LOOMIS: Good morning. In choosing a first question to ask each year, I look for a question that is definitely Berkshire-related and is timely. And this question seemed to fill the bill. The question came from William Anderson (PH) of Salem, Oregon.

And he said, "Mr. Buffett, you have previously said that there are two parts to your job, overseeing the managers and capital allocation. Mr. [Greg] Abel and Mr. [Ajit] Jain now oversee the managers, which leaves you with capital allocation.

"However, you share capital allocation with Ted Weschler and Todd Combs. Question. Does all that mean you are semi-retired? Or if not, please explain." (Laughter)

WARREN BUFFETT: I've been semi-retired for decades. (Laughter)

The answer is that I was probably — well, it's hard to break down the percentage of the time that I was involved in but now — the jobs that are now done by Ajit and Greg, and in the case of investing, the sub part of the job that is done by Ted and Todd.

Ted and Todd each manage 12- or $13 billion, so in total, that's 25 billion. And we have in equities 170-some billion, probably now, and 20 billion in longer-term bonds, and another hundred billion in cash and short-term.

So they're managing 20 - 25 and doing a very good job. And I still have the responsibility, basically, for the other 300 billion. So — (Laughter and applause)

I think Charlie will tell you — in fact, I'd like him to comment — nothing's really changed that much. We've got — clearly we've got two people in Ajit and Greg that are smarter, more energetic, just bring more to the job every day.

But they don't bring too much, because the culture is that our managers are running their business. But there's a lot — there's a good bit to oversee. So they do a superb job.

And Ted and Todd not only do a great job with the 12 or 13 billion each — they started with a couple billion each — not that it's all been the growth of the 2 billion — but they also do — have done a number of things for Berkshire that they do it cheerfully, but more important, very skillfully.

So there's just — there's one thing after another that I will have them looking into or working on. And sometimes I steal their ideas and —

But I think, actually, semi-retired is probably — catches me at my most active point. I think if — (laughter) — your questioner's got a good point.

OK, Charlie?

CHARLIE MUNGER: Well, I've watched Warren for a long time, and he sits around reading most of the time and thinking. And every once in a while he talks on the phone or talks to somebody. I can't see any great difference. A lot of people — (Laughter)

Part of the Berkshire secret is that when there's nothing to do, Warren is very good at doing nothing. (Laughter)

WARREN BUFFETT: I'm still looking forward to being a mattress tester. (Laughter)

5. Precision Castparts is "a very good business"

WARREN BUFFETT: OK, Jonathan Brandt.

JONATHAN BRANDT: Hi Warren. Hi Charlie. Given the growth in airplane build rates, it seems surprising that Precision Castparts isn't doing better on the top or bottom line.

I understand the issue with a bumpy transition from old to new programs, but I've also heard from industry sources that Precision's market position is not as strong as it used to be amid intensifying competition and some technological disruption.

What does Precision need to do to solidify and strengthen its preeminent position with its aerospace customers so that it can deliver the growth you expected when Berkshire acquired it?

WARREN BUFFETT: Yeah —

JONATHAN BRANDT: More generally, two years after the acquisition, what is your outlook for that business?

WARREN BUFFETT: Give me the last part again. The outlook.

JONATHAN BRANDT: More generally, two years after the acquisition, what is your updated outlook for that business longer term?

WARREN BUFFETT: Oh, longer term, I think — and in the reasonably shorter term — it's a very good business. I mean, you were —

You mentioned aircraft, but we get into other industries. But certainly aircraft's the most important. You have manufacturers that are very dependent on both the quality of the parts and the promptness of delivery.

You do not want to have an aircraft with 75- or 100- or maybe $200 million and be waiting for a part or something of the sort. So it's —

Reliability is, both in terms of quality and delivery times and all of that sort of thing, is enormously important. And we get contracts that extend out many years. And sometimes we — I mean, we will get them well before the plane even starts in production. So there's very long lead times.

And we have found in the last year — found it earlier, but I know of some specific cases in the last year — where other suppliers have failed in their deliveries and then the manufacturers come to us and say, "We would like you to help us out."

And we say, "Well, we'd be glad to help you out, but we'd like about a five-year contract, if we're going to do it because we're just not going to make up for these other guys' shortfalls periodically." But that sort of thing has a very long lead time.

The business is a very good business. One thing you will see their earnings charged with is about $400 million — little over $400 million a year — of intangible — nondeductible in that case — amortization of goodwill, which is really — is not an economic cost in my view.

We have a significant amount of that through Berkshire, but by far, the largest amount is related to the Precision acquisition. So whatever you see, you can add about 400 million that in my view is not an economic expense, but the accountants would argue otherwise. But it's our money, so we'll take my view. The — (Laughter)

Mark Donegan, who runs that operation, is incredible, and he has been not only — he's a fabulous manager. I wouldn't have bought it without him in charge. He also has been very helpful to us in other areas, and he loves to do it. So you can't beat him, both as a manager in his own operation, but with his devotion to really doing everything that will help Berkshire.

It was — it's a very good acquisition with very long tails to the products that are being developed.

Charlie?

CHARLIE MUNGER: Well, yeah, I think we'd buy another one just like it tomorrow if we had the chance.

WARREN BUFFETT: Yeah, that's the answer. (Laughter)

Man of few words, but he gets the point. (Laughter)

6. Trade benefits are huge, so U.S. and China won't do something "foolish"

WARREN BUFFETT: OK, now we will go to the shareholder in Station 1. I believe that's probably up here to my right.

AUDIENCE MEMBER: Hello. This is Chao (PH) from Wuxi, China, (Inaudible) Capital. I've been to the meeting for 12 years. Wish you and Charlie good health, so we could see you both from meeting for 12 more years.

WARREN BUFFETT: Thank you. (Applause)

AUDIENCE MEMBER: Quick question. We know both you and China delegations — U.S. and China delegations — are in China for intense discussion, also called a trade war.

Let's go one step beyond the trade war. Do you think there's a win-win situation for both countries or the world is just too small for both to win and we have to revisit your 1942 chart again? Thank you.

WARREN BUFFETT: Thank you. I'd like to just mention one thing. In August, I'm going to be 88, and that will be the eighth month of the year, and it's a year that ends with an eight.

And as you and I both know, eight is a very lucky number in China. So if you find anything over there for me, this is the time we should be acquiring something. All those eights.

AUDIENCE MEMBER: Will do. (Buffett laughs)

WARREN BUFFETT: The United States and China are going to be the two superpowers of the world, economically and in other ways, for a long, long, long time.

We have a lot of common interests, and like any two big economic entities, there are times when there'll be tensions.

But it is a win-win situation when the world trades, basically. And China and the U.S. are the two big factors in that, but there's plenty of other citizens of the world that are involved in how this comes out. And there is no question —

The nice thing about in this country I think is that both Democrats and Republicans basically, on balance, believe in the benefits of free trade.

And we will have disagreements with each other. We'll have disagreements with other countries on trade.

But it's just too big and too obvious for — that the benefits are huge, and the world's dependent on it in a major way for its progress, that two intelligent countries will do something extremely foolish.

We both may do things that are mildly foolish from time to time, and there is some give and take, obviously, involved.

But U.S. exports in 1970 and U.S. imports in 1970 were both about 5 percent of GDP. I mean, here we we were, selling 5 percent of our GDP and buying up 5 percent of our GDP, basically.

Now people think we don't export a lot of things. Our exports are 11 and a fraction percent of GDP. They've more than doubled as a share of this rising GDP. But the imports are about 14 1/2 percent, so there's a gap of three percent or thereabouts.

And I would not like that gap to get too wide. But when you think about it, it's really not the worst thing in the world to have somebody send you a lot of goods that you want and hand them little pieces of paper.

I mean, because the balancing item is, if you have a surplus or deficit in your trade, you're going to have a surplus in investment.

And so the world is getting more claim checks on the United States, and they — to some extent they buy our government securities, they can buy businesses.

And over time, you don't want the gap to get to be too wide because the amount of claim checks you are giving out to the rest of the world could get a little unpleasant under some circumstances.

But we've done remarkably well with trade. China's done remarkably well with trade. The countries of the world have done remarkably well with trade. So it is a win-win situation.

And the only problem gets to be when one side or the other may want to win a little bit too much, and then you have a certain amount of tension.

But we will not sacrifice — the world, I mean — will not sacrifice world prosperity based on differences that arise in trade.

Charlie?

CHARLIE MUNGER: Yeah, well I think that both countries have been advancing. And of course China is advancing faster economically, because it started from a lower base and they've had a little more virtue than practically anybody else in the world in having a high savings rate.

And of course, a country that was mired in poverty for a long, long time, and that assimilates the advanced technology of the world, and has a big savings rate, is going to advance faster than some very mature company like Britain or the United States. And that's what's happened.

But I think we're getting along fine, and I'm very optimistic that both nations will be smart enough to realize that the last thing they should do is have any ill will for the other.

7. Deals don't depend on Buffett: "The reputation belongs to Berkshire now"

WARREN BUFFETT: OK, Becky Quick. (Applause)

BECKY QUICK: This question comes from Kirk Thompson.

He says, “Warren, in this year’s annual letter to shareholders, you referenced both cheap debt and a willingness by other companies to leverage themselves as competitive examples as to why it’s hard to get more acquisition deals done.

“It seems like the trust in — and prestige of doing a deal with Warren Buffett and Charlie Munger allow Berkshire to get a hometown discount and beat out other firms that might pay a little more to a prospective seller.

“Have you given thought to having other Berkshire managers have more public exposure, so future generations of successful business owners continue to bring deal opportunities to Berkshire like they have in prior decades?”

WARREN BUFFETT: Yeah, that sort of reminds me of — who was it? Tony O’Reilly remarked one time about the responsibility of a CEO.

That the very first job of the CEO was to search through his organization and find that person who had the initiative and the brains, the determination, all of the qualities to be his logical successor, and then fire the guy. (Laughter)

The — there’s no question. I think the reputation of Berkshire as being a very good home for companies — particularly private companies — but a good home for companies, I don’t think that reputation is dependent on me or Charlie.

It may take a little, you know, there’ll be a little testing period for whoever takes over, in that respect. But, you know, basically we’ve got the money to do the deals. We’ll have the money to do the deals subsequently. People can see how our subsidiaries operate in the future.

And the truth is that, I think some of the other executives are going — are getting better known. But there will be a — you know, I’ll tell you this, if things get bad enough, you don’t have to worry. They’ll be calling us no matter what. (Laughs)

So I do not worry about the so-called "deal flow," which is a term I hate. But I don't think there's — I think that's dependent on Berkshire and not dependent on me.

And, you know, as I've mentioned, my phone isn't ringing off the hook with good deals. So apparently this big winning personality or something is not delivering for you. (Laughter)

So it may be the next person will be even more — get even more calls.

Berkshire — the reputation belongs to Berkshire now. And we are, for somebody that cares about a business that they and their parents and maybe their grandparents lovingly built over decades — if they care about where that business ends up being after, for one reason or another, they don't want to keep it or can't keep it in the family, we absolutely are the first call.

And we will continue to be the first call, whether Charlie or I answer the phone or somebody else does.

Charlie?

CHARLIE MUNGER: Well, a lot of the subsidiaries have for a long time already been making all kinds of acquisitions with people they know and we don't. So it's already happening. And, in fact, it's happening more there than it is at headquarters, so —

WARREN BUFFETT: Don't tell them, Charlie.

CHARLIE MUNGER: You're getting your wish. (Laughter)

And it is weird that about 99 percent of the public companies that change hands, in terms of control, change hands in a sort of auction presided over by an investment banker.

And the people that buy are usually just leverage it to the gills, and when it starts doing a little better, they re-leverage it.

And that money is coming out of the charitable endowments and pension plans who are making these highly-leveraged investments in all these companies changing hands at very high prices. Sooner or later, this is not going to work perfectly.

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: And it's going to have an unpleasant episode. And I think we'll be around and in good shape at that time.

WARREN BUFFETT: There was one fellow who came to me many years ago. And he had a wonderful business. And he had been worried because he had seen a friend of his die.

And the problems that arose later when the managers, to some extent, tried to take advantage of the widow. And it became a disaster.

So he said he thought about it a lot the previous year. And he decided he didn't want to sell the business to a competitor, who would be a logical buyer, because they would fire all of his people. And the CFO that would remain, and, you know, all up and down the line, they'd all be the acquirer's people. He didn't want to do that to his people.

And then he thought, and he didn't want to sell it to a private equity firm, because he thought they'd leverage it up. He never liked to leverage that much, and then they'd just resell it later on to somebody, so it would be totally out of control of what he wanted to do.

And he wanted to keep running it himself. So he said, "Warren," he said, "It isn't that you're such a great guy," he says, "It's you're the only one left." So — (Laughter) —

Berkshire will continue to be the only one left in many cases.

8. "We don't know what we're doing" in cyber insurance

WARREN BUFFETT: Gary Ransom.

GARY RANSOM: Good morning. Warren, in your annual letter, you wrote about a potential for a $400 billion natural catastrophe event, something out in the tail of the loss distribution. I can think of another risk that could have a similar order of magnitude, and that would be cyberrisk.

I'm sure all your managers have taken steps against that potential, but in — out in the tail of the cyberrisk distribution, it could hit a lot of industries, a lot of your companies. So how do you think about and prepare for the big one in cyber?

WARREN BUFFETT: Yeah. Well, I include, incidentally, in my — that part I wrote in the annual report where I said that roughly — nobody knows the answer on this. I mean, I could stick down two, and somebody else much smarter in insurance would stick down a different figure.

But I think it's about a 2 percent risk of what I call a 400 billion super-cat of all time. And —

But cyber is in that equation. I mean, that's not just earthquakes and that sort of thing. And frankly, I don't think we, or anybody else, really knows what they're doing when writing cyber. I mean, we — it is just very, very, very early in the game.

And we don't know what the interpretations of the policies, necessarily, will be. We don't know the degree to which they'll be what — there'll be correlated incidents, which we don't really think are correlated now or haven't had the imagination to come up with.

We know that every year when I go and hear these people from the CIA or wherever it may be, they tell me that the offense is ahead of the defense, and will continue that way.

And I can dream of a lot of cyber incidents, which I'm not going to spell out here, because people that have twisted minds may be — they've probably got more — way more — ideas than I've got, but I don't believe in feeding them any.

But it's a business where we don't — we have a pretty good idea of the probabilities of a quake in California, or the probabilities of a three or a four hurricane hitting Florida, or whatever it may be.

We don't know what we're doing in cyber, and we try to keep — we don't want to be a pioneer on this. We do some business in that arena in Berkshire Hathaway Specialty.

But if you're doing something for competitive reasons — which I'm OK with — but when I'm doing something where I — that people tell me is a competitive necessity, we are going to try not to have — we don't want to be number one or number two or number three in exposures on it. And I don't — and I am sure we are not in cyber. But I don't —

I think anybody that tells you now that they think they know in some actuarial way, either what general experience is likely to be in the future, or what the worst case would be, I think, is kidding themselves.

And that's one of the reasons that I say that a $400 billion event has a — I think has roughly a 2 percent probability per year of happening.

Cyber's uncharted territory, and it's going to get worse, not better. And then the question is whether, if we have a whole bunch of $25 billion commercial limits out there, whether there's some aggregation that we didn't foresee or that the courts interpret those policies differently, then you know — they are generally going to give the benefit of the doubt to the insured.

So you're right in pointing that out as a very material risk, which didn't exist 10 or 15 years ago and that — and will be much more intense as the years go along.

And all I can tell you, Gary, is that, that's part of my 400 billion and my 2 percent. But if you've got a different guess, it's just as likely that yours is right than mine on that.

Charlie?

CHARLIE MUNGER: Yeah, well, something that's very much like cyberrisk is, you've got computers programmed to do your security trading and your computer goes a little wild from some error.

And that's already happened at least once where somebody just was fine one morning and by the afternoon they were broke because some computer went crazy. We don't have any computers we allot — we allow to do big, automatically trading securities.

I think, generally, Berkshire is less likely than most other places to be careless in some really stupid way.

WARREN BUFFETT: I do think if there's a mega-cat from cyber, and let's say it hits 400 billion, I do not think we'll have more than a 3 percent —

CHARLIE MUNGER: No, no —

WARREN BUFFETT: — exposure.

CHARLIE MUNGER: No, no, we'll get our share.

WARREN BUFFETT: And but it, you know, it will destroy — what will destroy a lot of companies — that we will actually, if we had a $12 billion loss, I would think, except for the new accounting rule, but I believe from what I call operating earnings, we would probably still have a reasonable profit that year.

I mean, we are in a different position than any insurance company I know of in the world, in our ability to handle the really — really super, super-cat.

OK, shareholder from station 2.

CHARLIE MUNGER: May I point out that the main shareholder to my right here has almost all his net worth in one security. That's likely to be more carefully managed than some public place with people just passing through.

WARREN BUFFETT: Yeah, you don't want a guy that's 64 and is going to retire at 65. And a lot of decisions you really don't want him or her to be making. (Laughter)

9. Capital allocation in the public sector

WARREN BUFFETT: Station 2?

AUDIENCE MEMBER: Wally Obermeyer, Obermeyer Wood Investment Counsel, Aspen, Colorado.

Warren and Charlie, you two have demonstrated great talent in private sector capital allocation and shown the world the power of excellence in this area.

Do you think there is a similar opportunity for outstanding capital allocation in the public sector, at both the state and federal levels? And if so, what approach and/or changes would you suggest for society to achieve these benefits?

CHARLIE MUNGER: That's too tough. Why don't we go on to a new question? (Laughter)

WARREN BUFFETT: I'm afraid I have nothing to add. (Laughter and applause)

I don't mean to be unfair to somebody asking a question, but it — you know, it is unfortunately an entirely different game. And the electorate — the motivations are different, the terms, the reward system is different.

I mean, everything is different. And if we knew how to solve that, we wouldn't — we can't add anything to what you had in your view. I'm sorry on that.

10. Wells Fargo will emerge stronger after its "big mistake"

WARREN BUFFETT: OK, Andrew?

ANDREW ROSS SORKIN: Hi Warren. This question comes from Paul Spieker (PH) of Chicago, Illinois. I believe he may be here today.

He writes, "One of your more famous and perhaps most insightful quotes goes as follows:

"'Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.'

"In light of the unauthorized accounting scandal at Wells Fargo, of its admission that it charged customers for duplicate auto insurance, of its admissions that it wrongly fined mortgage holders in relation to missing deadlines caused by delays that were its own fault, of its admission that it charged some customers improper fees to lock in mortgage interest rates, of the sanction placed upon it by the

Federal Reserve prohibiting it from growing its balance sheet, and of the more than recent $1 billion penalty leveled by federal regulators for the aforementioned misbehavior, if Wells Fargo company is a chronically leaking boat, at what magnitude of leakage would Berkshire consider changing vessels?"

WARREN BUFFETT: Yeah, well, Wells Fargo (Applause) —

Wells Fargo is a company that proved the efficacy of incentives, and it's just that they had the wrong incentives. And that was bad.

But then they committed a much greater error — and I don't know exactly how or who did it or when, but — ignoring the fact that they had a faulty incentive system which was incenting people to do things that were kind of crazy, like opening nonexistent accounts, et cetera.

And, you know, that is a cardinal sin at Berkshire. We know people are doing something wrong, right as we sit here, at Berkshire.

You can't have 377,000 employees and expect that everyone is behaving like Ben Franklin or something out there. They — we — I don't know whether there are ten things being done wrong as we speak, or 20, or 50.

The important thing is, we don't want to incent any of that if we can avoid it, and if we find — when we find it's going on, we have to do something about it. And that is absolutely the key to it.

And Wells Fargo didn't do it, but Salomon didn't do it. And the truth is, we've made a couple of our greatest investments where people have made similar errors.

We bought our American Express stock — that was the best investment I ever made in my partnership years — we bought our American Express stock in 1964 because somebody was incented to do the wrong thing in something called the American Express Field Warehousing Company. We bought —

A very substantial amount of GEICO we bought that became half the — half of GEICO, for $40 million because somebody was incented to meet Wall Street estimates of earnings and growth. And they didn't focus on having the proper reserves.

And that caused a lot of pain at American Express in 1964. It caused a lot of pain at GEICO in 1976. It caused a layoff of a significant portion of the workforce, all kinds of things. But they cleaned it up.

They cleaned it up, and look where American Express has moved since that time. Look at where GEICO has moved since that time.

So the fact that you are going to have problems at some very large institution is not unique. In fact, almost every bank has — all the big banks have had troubles of one sort or another.

And I see no reason why Wells Fargo as a company, from both an investment standpoint and a moral standpoint going forward, is in any way inferior to the other big banks with which it competes on —

It — they made a big mistake. It cost — I mean, we still got — I mean we have a large, unrealized gain in it, but that doesn't have anything to do with our decision-making. But the —

I like it as an investment. I like Tim Sloan as a manager, you know. He is correcting mistakes made by other people.

I tried to correct mistakes at Salomon, and I had terrific help from Deryck Maughan as well as a number of the people at Munger, Tolles. And I mean, that is going to happen. You try to minimize it.

Charlie says that, "An ounce of prevention isn't worth a pound of cure, it's worth about a ton of cure." And we ought to jump on everything. He's pushed me all my life to make sure that I attack unpleasant problems that surface. And that's sometimes not easy to do when everything else is going fine.

And at Wells, they clearly — and I don't know exactly what — but they did what people at every organization have sometimes done, but it got accentuated to an extreme point.

But I see no reason to think that Wells Fargo, going forward, is other than a very, very large, well-run bank that had an episode in its history it wished it didn't have.

But GEICO came out stronger, American Express came out stronger. The question is what you do when you find the problems.

Charlie?

CHARLIE MUNGER: Well, I agree with that. I think Wells Fargo is going to be better going forward than it would have been if these leaks had never been discovered.

WARREN BUFFETT: Or happened.

CHARLIE MUNGER: Yeah, so I think it's — it — but I think Harvey Weinstein has done a lot for improving behavior, too. (Laughter)

It was clearly an error, and they're acutely aware of it and acutely embarrassed, and they don't want to have it happen again.

You know, if I had to say which bank is more likely to behave the best in the future, it might be Wells Fargo, of all of them.

WARREN BUFFETT: This New York Times that I have here from March 12th, 1942, if you go toward the back of it, in the classified section, you have one big section that says, "Help Wanted Male," and another one that says, "Help Wanted Female."

You know, was the New York Times doing the right thing in those days? You know, I think the New York Times is a terrific paper. But people make mistakes.

And you know, the idea of classifying between — taking ads and saying, "Well, we'll take them and divide them up between men and women, what jobs we think are appropriate," or that the advertiser thinks is appropriate.

We do a lot of dumb things in this world. And GEICO, as I say, in the early 1970s, they just ignored — and you can do it in the setting of proper reserves, which mean they charged the wrong price to new customers because they thought their losses were less than they were.

And I'm sure some of that may have been a desire to please Wall Street or just because they didn't want to face how things were going. But it came out incredibly stronger. You know, and now it's got 13 percent of the households in the United States insured.

And it came out with an attention to reserves and that sort of thing that was heightened by the difficulties that they'd found themselves in where they almost went bankrupt. Forty-two —

CHARLIE MUNGER: It was a lot more stupid than Wells Fargo. It was really stupid what they did way back, right?

WARREN BUFFETT: Yeah. They had the world by the tail, and then they quit looking at the reserve development. But — and American Express was just picking up a few dollars by having the field warehousing company in 1963. And, you know, they were worried whether it was going to sink the company.

And when some guy named Tino De Angelis in, I think it was Bayonne, New Jersey —

In fact, I went to the annual meeting in 1964 of American Express after the scandal developed, and somebody asked if the auditor would step forward.

And the auditor from one of the big firms, which I won't mention, came up to the microphone, and somebody said, "How much did we pay you last year?"

And the auditor gave his answer, and then the questioner said, "Well, how much extra would you have charged us to go over to Bayonne, which was ten miles away, and check whether there's any oil in the tanks?" (Laughs)

So it — you know, here was something — a tiny little operation — some guy was calling him from a bar in Bayonne and telling him this phony stuff was going on, and they didn't want to hear it. They shut their ears to it.

And then what emerged was one great company after this kind of, what they thought was a near-death experience. So it's — we're going to make mistakes.

I will guarantee you that we will get some unpleasant news at Berkshire. I don't know what it'll be, you know — the most important thing is we do something about it.

And there have been times when I procrastinated, and Charlie has been the one that jabs me into action. And so he's performed a lot of services you don't know about. (Laughter)

11. "I like to think I'll be missed a little bit, but you won't notice it"

WARREN BUFFETT: OK. Gregg, Gregg Warren.

GREGG WARREN: Good morning, Warren. I have a little bit of a follow-up on Becky's question.

At the 2014 annual meeting, as well as this morning, you noted that the power of Berkshire brand and its reputation, as well as the strength of Berkshire's balance sheet, would allow the company's next managers to replicate many of the advantages that have come with your being the face of the organization, one of which has been an ability to extract high rents from firms in exchange for a capital infusion and the Buffett seal of approval during times of financial distress.

I buy the argument about the strength of the balance sheet and believe that deals will continue to be done with sellers still lining up to become part of the Berkshire family, especially if the company's next managers are allowed to keep a ton of cash on hand.

But I'm not entirely convinced that they'll be able to garner the same 8, 9, 10 percent coupons, as well as other add-ons, that you've been able to extract from firms like Goldman Sachs and Bank of America in times of distress.

I'd expect those rents to be at least a few percentage points lower once you're no longer running the show. That is, until those managers build up a reputation to warrant higher returns. Am I right to think about it that way?

WARREN BUFFETT: I'm not sure. The — when we, in two — you mentioned Goldman Sachs, and we also did with General Electric, in September or early October of 2008. We probably could actually have extracted better terms.

You know, I think it might have been counterproductive in the end, but I was — we would have done better, incidentally, financially, if we'd really waited until the panic developed further — because I didn't know how far it would develop — but we could have made a lot better purchases three or four or five months later than we did at that time.

And we also did not want to do something that looked to be so high as to in — make the transaction disadvantageous to Goldman or to GE.

They were going to take the terms we offered, but we actually didn't push it to the limit, because there really wasn't anybody else around.

I think — and we're working on something right now that probably won't happen. It's not huge.

But actually, in this case, both Todd [Combs] and Ted [Weschler] have brought deals to me. One of them brought something to me, and, you know, he was thinking in the same terms that I got — was thinking about — and he's the one that returned the call that he had received about a transaction.

And I do not think the party on the other side is going to care about the fact that they had him on the phone rather than me on the phone. I —

You know, there may — there could be just a little bit at certain times in history. But, you know, we will continue to have our standards of what we think money is worth at any given time. And Ted and Todd think just as well about that as I do.

And there will be times, very occasionally, when our phone will ring a lot. And I don't think they'll hang up because I don't answer it, if they need the money.

Charlie?

CHARLIE MUNGER: Well. The times he's referring to, a lot of them, were like the worst in 50 years. So that's a really rare kind of an occurrence. And we didn't make all that many deals. So I think he's right that it'll be harder for us to make similar deals in the future.

WARREN BUFFETT: Yeah, the problem is the sums involved now, more than the problem of deciding what the proper terms should be. And sometimes we can get what we think is appropriate and sometimes we — most of the time, today, we can't.

But you may see a transaction or two that — not in terms of buying business but in terms of securities — that strike you as perfectly decent ways to invest Berkshire's money.

And they may well have come through Todd or Ted instead of directly to me.

I like to think I'll be missed a little bit, but I — you won't notice it. (Laughter)

12. Buffett talks to Ajit Jain about insurance pricing because it's fun

WARREN BUFFETT: OK, Station 3.

AUDIENCE MEMBER: I'm Todd Lichter (PH) from Boulder, Colorado.

Mr. Buffett, are you still involved in pricing decisions at See's Candies and The Buffalo News? And with what other Berkshire subsidiaries do you take more than a hands-off approach?

WARREN BUFFETT: Yeah, you're correct that at one time I, and for some — for quite a while — both Charlie and I took part in the pricing decisions at See's Candy.

And certainly, for some years, particularly with the question of the survival of The Buffalo News was really in question, I definitely took part in those decisions.

In both cases, we had good managers, but still we wanted to — we thought those decisions were important. But it's been a long, long time — very long time — since we've participated in anything like that.

I can't tell you what the per pound price is for See's Candy, which is because people, and you're invited to join this group, send me free candy from time to time. (Laughter)

And I can't — I really, I can't tell you the prices at The Buffalo News. All I know is it's very, very, very hard to move up prices on advertising, generally. So no, we —

The only thing is, Ajit [Jain] and I talk frequently. And if there's some very big risk, if somebody wants a $5 billion cover on a chemical plant some way excessive loss of over 3 billion or something — we have a certain amount of fun with him deciding on the price in his head. And I decide in my head, and then we compare notes.

It's the kind of risk that you really can't look up in a book and see, actuarially, what it's fairly — the parameters — are fairly likely to be.

I enjoy thinking through the pricing of that, and I particularly enjoy comparing it with Ajit. So the —

These are just oddball situations, but we do that sort of thing, and we've done it for three decades. And it's part of the fun of my job.

The candy prices, if you got to complain about those, you have to go to Charlie. (Laughter)

CHARLIE MUNGER: Well, the answer is, Warren is still doing it and talking to Ajit, and — but that's because Ajit likes it that way.

WARREN BUFFETT: Yep.

CHARLIE MUNGER: We have a very peculiar place where the — where Warren's contact with the various people elsewhere in the organization largely depends on what they want, not what he wants.

WARREN BUFFETT: The CEO of one of our —

CHARLIE MUNGER: It's very unusual, and it's worked beautifully.

WARREN BUFFETT: The CEO of one of our most successful subsidiaries, I may have talked to — unless I saw him here and just said hello — I probably talked to him three times in the last ten years.

And he does remarkably well. (Laughs)

He might have done even better if I hadn't talked to him those three times. (Laughter)

And on the other hand, Ajit and I talk very, very frequently. And he's got the kind of business, A, I do know — I know more about the insurance business than I know about a good many of the other businesses.

And it's interesting. And we are evaluating things that you don't look up in a book, you know. I mean, actuarial talent is not what's important in the things that Ajit talks to me about. It's plenty important throughout our insurance operation.

But in these particular cases, you know, we're making judgments, and his judgment's better than mine. But I like to — I just like to hear about them. They're interesting propositions.

13. Putting business values in income account is "enormously deceptive"

WARREN BUFFETT: OK, Carol.

CAROL LOOMIS: … shareholder named Jack Ciesielski . He's a well-known accounting expert, who for many years has written "The Accounting Observer."

"Mr. Buffett, in this year's shareholder letter you have harsh words for the new accounting rule that requires companies to use market value accounting for their investment holdings.

"'For analytical purposes,' you said, 'Berkshire's bottom-line will be useless.'

"I'd like to argue with you about that. Shouldn't a company's earnings report cite everything that happened to, and within, a company during an accounting period?

"Shouldn't the income statement be like an objectively written newspaper informing shareholders of what happened under the management for that period, showing what management did to increase shareholder value and how outside forces may have affected the firm?

"If securities increased in value, surely the company and the shareholders are better off. And surely they're worse off if securities decreased in value.

"Those changes are most certainly real. In my opinion, ignoring changes in the way that some companies ignore restructuring costs, is censoring the shareholders' newspaper.

"So my question is, how would you answer what I say?" (Laughter)

WARREN BUFFETT: Well, my answer to the question that asks what my answer would be to what he said — the — I would ask Jack, if we've got $170 billion of partly-owned companies, which we intend to own for decades, and which we expect to become worth more money over time, and where we reflect the market value in our balance sheet, does it make sense to, every quarter, mark those up and down through the income account, when at the same time we own businesses that have become worth far more money, in most cases, and become, you know, since we bought — you name the company — take GEICO, an extreme case — we bought half the company for $50 million, roughly — do we want to be marking that up every quarter to the value — and having it run through the income account?

That becomes an appraisal process. There's nothing wrong with doing that, in terms of evaluation. But in terms of — and you can call it gain in net asset value or loss in net asset value — that's what a closed-end investment fund, or an open-investment fund would do.

But to run that through an income account — if I looked at our 60 or 70 businesses, or whatever number there might be, and every quarter we marked those to market, we would have, obviously, a great many, in certain cases, where over time we'd have them at 10 times what we paid, but how quarter-by-quarter we should mark those up and run it through the income account, where 99 percent of investors probably look at net income as being meaningful, in terms of what has been produced from operations during the year, I think would be — well, I can say it would be enormously deceptive.

I mean, in the first quarter of this year — you saw the figures earlier — where we had the best what I would call operating earnings in our history, and our securities went — were down six billion, or whatever it was, to keep running that through the income account every day you would say that we might have made on Friday, we probably made 2 1/2 billion dollars. Well, if you have investors and commentators and analysts and everybody else working off those net income numbers and trying to project earnings for quarters, and earnings for future years, to the penny, I think you're doing a great disservice by running those through the income account.

I think it's fine to have marketable securities on the balance sheet — the information available as to their market value — but we have businesses there — if we — we never would do it — but if we were to sell half, we'll say, of the BNSF railroad, we would receive more than we carried — carried for them — we would turn — we could turn it into a marketable security and it would look like we made a ton of money overnight. Or if we were to appraise it, you know, appraise it every three months and write it up and down, A, it could lead to all kinds of manipulation, but B, and it would just lead to the average — to any investor— being totally confused.

I don't want to receive data in that manner and therefore I don't want to send it out in that manner.

Charlie?

CHARLIE MUNGER: Well, to me it's obvious that the change in valuation should be noted, and it is and always has been — it goes right into the net worth figures.

So the questioner doesn't understand his own profession. (Laughter and applause)

I'm not supposed to talk that way but it slips out once in a while. (Laughter)

WARREN BUFFETT: Sometimes he even gives it a push. (Laughter)

14. McLane profits hurt by severe competitive pressure

WARREN BUFFETT: OK. Jonathan.

JONATHAN BRANDT: McLane's core operating margins have dropped about 50 percent from where they've generally been since acquisition [from Walmart].

Could you elaborate on the competitive pressures in the grocery and convenience store distribution business that have caused the deterioration in profits? And do you expect the margin structure of that business to eventually get back to where it was, or is this the new normal?

WARREN BUFFETT: Well, I don’t know the answer to the second part about the future, but there’s no question that the margins have been squeezed. They were very, very narrow, as you know, they were about one cent on the dollar pretax, and they have been squeezed from that. Payment terms get squeezed.

In some cases we have fairly long-term contracts on that, so it will go on for five years (inaudible).

It’s a very, very tight margin business. And the situation is even worse than you portray because within McLane we have a liquor distribution business in a few states and that business has actually increased its earnings moderately, and we’ve added to that business, so within McLane’s figures there are about 70 million or so pretax from the liquor part that have nothing to do with the massive parts you’re talking about, in terms of food distribution.

So it’s even — the decline is even greater in what you’re referring to than you’ve (inaudible).

That’s just become very much more competitive. We have to decide — if you’ll look at our competitors, they’re not making much money either. And that’s capitalism.

I think, you know, there comes a point where the customer says, you know, “I’ll only pay X,” and you have to walk away.

And there’s a great temptation when you’re employing — particularly employing thousands of people — and you’ve built distribution facilities, and all of that sort of thing — take care of them — to meet what you’d like to term as “irrational competition,” but that is capitalism.

And — you’re right. We took — the earnings went up quite a bit from the time we bought it. And we’re still earning more than then. And we’ve earned a lot of money over time.

But, as I say, a fair amount of that is actually coming from liquor distribution, activities in about four states that we purchased — very well-run.

And — we will do our best to get the margins up. But I would not — I could not tell you — give you a really — your guess is almost as good as mine, or better than mine, maybe, as to what margins will be in that distribution business five years from now.

It's a very essential service. We do $40-some billion. And we move more of the product of all kinds of companies that names are known to you, than anybody else. But — when you get — when you get — Kraft Heinz for that matter, or Philip Morris, or whomever it may be, on one side of the deal, and you get Walmart and some other — 7/11 — on the other side of the deal, sometimes they don't leave you very much room in between.

Charlie?

CHARLIE MUNGER: I think you've described it very well. (Buffett laughs)

15. Health care costs partnership with Amazon and JPMorgan

WARREN BUFFETT: OK. (Laughter) Station 4.

AUDIENCE MEMBER: Good morning, Charlie and Warren. I know that seems a little bit out of order, but I'm a huge fan of yours, Charlie, mostly for your 25 Cognitive Biases.

I'm from Seattle, Washington. I run a one-person digital marketing firm that specializes in Facebook ads and email marketing. I use these a lot. I — your breakdown of Coca-Cola was really, really solid.

And I use that as reference when looking to how to understand the mechanics of my clients' products and how to promote them. So I'm fairly certain that your cognitive biases work for internet-related companies.

Now that you're partnering with Amazon [and JPMorgan] on health care, I'm curious, have you started to understand how to apply these biases to internet-related companies? Or is there another set of tools you use to decide if you understand a business? Because you guys talk a lot about not investing in businesses that you don't understand.

WARREN BUFFETT: Well, health care is a — we don't plan to start health care companies or, necessarily, insurers or anything. We simply have three organizations with leaders that I admire and trust. And we — mutually goes around all three.

And we hope to do something which Charlie correctly would probably say is almost impossible to change in some way a system which is — was taking 5 percent of GDP in 1960, and now is taking close to 18 percent.

And we have a hugely noncompetitive medical cost in American business, relating to any country in the world. The countries that — there were some countries that were around our 5 percent when we were at 5 percent. But we've managed to get to 18 without them going beyond 11 or so.

Literally, in 1960, we were spending $170 per capita on medical costs in the United States. And now we're spending over 10,000.

And, you know, every dollar only has a hundred cents. So there is a cost problem. It is a tapeworm, in terms of American business and its competitiveness.

We don't — we have fewer doctors per capita. We have fewer hospital beds per capita, fewer nurses per capita, than some of the other countries that are well below us.

And you've got a system that is delivering $3.3 trillion — that's almost as much as the federal government raises — it's delivering 3.3 trillion, or some number like that, to millions and millions and millions of people who are involved in the system. And every dollar has a constituency. It's just like politics.

And whether we can find the chief executive, which we're working on now, and which I would expect we would — we would be able to announce before too long — that — but that's a key part of it.

And whether that person will have the imagination and support of people that will enable us to make any kinds of significant improvements in a system which everybody agrees is sort of out of control on cost, but what — but — but they all think it's the other guy's fault, generally — we'll find out. It won't be — it won't be easy.

But it is not a — the motivations are not primarily profit-making. They're — we want to deliver — we want our employees to get better medical service at a lower cost. We're not going to — we're certainly not going to come up with something where we think the service that they receive is inferior to what they're getting now.

But we do think that there may be ways to make a real — significant changes — that could have an effect. And we know that the resistance will be unbelievable.

And if we fail, we've at least tried. And — but they — the idea is not that I will be able to contribute anything to, you know, in some breakthrough moment, by reading a few medical journals or something — (laughs) — changing something that is as embedded as the medical system.

But the idea is that maybe the three organizations, which employ over a million people and which, after we announced it, we had a flood of calls from people that wanted to join in, but there isn't anything to join into now. But they will if we have — come up with any ideas that are useful.

Whether we can — bring the resources, bring the person. And the CEO is terribly important. And then bring the person, support that person. And somehow, figure out a better way for people to continue to receive better medical care in the United States without that 8 percent — 18 percent — going to 20 or 22 percent, you know, in the lifetime of, you know, our children or something of the sort — because there are only a hundred cents in the dollar.

And we will see what happens. It's — you know — if you were Ajit [Jain], actuarially figuring, it would not — you would not bet on us. But — I think there is some chance we will do something.

There's a chance — nobody can quantify it — that we can do something significant. And we are positioned better than most people to try. And we've certainly got the right partners. So, we will give it a shot and see what happens.

Charlie? (Applause)

CHARLIE MUNGER: There is some precedent for success in this public service activity. If you go back many decades, John B. Rockefeller I, using his own money, made an enormous improvement in American medical care. Perfectly enormous. In fact, there's never been any similar improvement done by any one man since that rivals it.

So Warren, having imitated Rockefeller in one way, is just trying another. And maybe it'll work.

WARREN BUFFETT: Rockefeller, incidentally, lived a very long time. So I actually am trying to imitate him three ways there. (Laughter)

We'll see what happens. But we are — we're making a lot of progress. And I think we'll probably have a CEO within a couple of months. But if we don't have one, then we're not going to pick somebody just because we want to meet any deadline or anything like that. We've got these wonderful partners.

We don't have a partnership agreement among us. Somebody started drawing up one in a legal department and the CEO just put a stop to it.

They — you do have places that have a lot of resources. And while we all have our share of bureaucracy, we can cut through it if we've got something that we really think makes sense.

And we will get the support — we'll get — we'll get a lot of resistance, too. But we will get the support of a lot of American business, if we come up with something that makes sense.

But if it was easy, it would've already been done. There's no question about that.

CHARLIE MUNGER: It's not easy.

WARREN BUFFETT: No. (Laughs) But it should be tried.

16. Weschler and Combs "slightly ahead" of S&P

WARREN BUFFETT: OK. Becky?

BECKY QUICK: This question comes from David Rolfe, who is with Wedgewood Partners, and has been — the company — has been shareholders in Berkshire since 1989. The stock is currently the largest holding in their stocks — 18 stocks.

He asks this question: “Over the past two years, you have listed the individual fund-of-funds performance from Protégé Partners. When will you start showing the annual performance on 25 billion that Ted [Weschler] and Todd [Combs] manage? Can you state if either Ted or Todd has beaten the S&P 500 index over the last five years?

WARREN BUFFETT: Yeah. Both — A, we’ll probably never report their individual performance.

But you can be sure that I have an enormous interest in — as does Charlie — in how much we think they contribute to Berkshire. And they have — they’ve been terrific. They’ve — they not only have the intellect, and the record, but they are exceptional human beings. And they —

Todd has done a tremendous amount of work, for example, on the medical project.

And — Ted is — I’ve given him several things, and he’s done them better than I could do them.

So the record, since inception — and I’m measuring it — Ted came later than Todd, a year or so later — but the record, since inception, is almost identical — both for the two managers — from their different inception and matching the S&P.

And they’ve received some incentive compensation, which they only get if they beat the S&P. And as I say, they’re just slightly ahead. That really hasn’t —

It’s been better than I’ve done, so naturally, I can’t criticize it. (Laughs)

They — they were the — they were two very, very, very good choices.

Charlie?

CHARLIE MUNGER: You did report it in a previous year. You just didn’t do it this year. And — but now you have your report. (Laughter)

WARREN BUFFETT: I would — the problem that all of us has is size. It's actually — it's harder to run even 12 or $13 billion, frankly, than it is to run a billion. And if you're running a million dollars or something of the sort, it's a whole different game. You'd agree with that, wouldn't you, Charlie?

CHARLIE MUNGER: Of course.

WARREN BUFFETT: Yeah, OK. (Laughter)

Just like any good lawyer, you never ask him a question unless you think you know the answer they're going to give. (Laughter)

17. GEICO is on a good growth and profit track

WARREN BUFFETT: OK. Gary?

GARY RANSOM: My question's on GEICO. Last year, you promised growth and delivered. But along the way, the combined ratio was moving up, and it was the first time it was over a hundred in about 15 years.

Granted, some of that was catastrophes. But even excluding catastrophes, there was something going on in the loss trends that caused you to slow down that growth, at least at the — as we got to the latter part of the year.

And I wondered if you could tell us what was going on. And I did look this morning, too, so it looked like the first quarter has settled down a little bit, but I'd still like to know about the fourth quarter.

WARREN BUFFETT: Yeah, sure. It — the only thing I differ with the question on slightly — when you say it caused us to slow down — we didn't want to slow down the growth. I mean, you're looking at a guy here that has never wanted to slow down the growth of GEICO. The growth did slow down, but it wasn't because we wanted it to.

Our prices that led to the underwriting loss — we actually — we'd have been slightly in the black without the catastrophes.

But, you know, if we hadn't have paid our light bills, we might have been in the black, too. I mean, this "except for" stuff doesn't mean much in insurance as far as I'm concerned.

The — if you'll look at the first quarter — our margins were around 7 percent, which is actually a little more than we aimed for. And I received the unaudited — I mean, the preliminary — figures for April, and they're similar.

So, the underwriting gain is — or margins — are perfectly satisfactory now. And we'd love to get all the growth we can. And we will gain market share this year. And we gained market share — Tony — when Tony [Nicely] took over the place, it was — in 1993 — it was two and a very small fraction percent. And it'll be 13 percent of the — you know — 13 percent of the households in the country now. And we will keep gaining share. We will keep writing profitably — most of the time.

And every now and then, our rates will be slightly — modestly inaccurate — inadequate, I should say. And/or we'll have, maybe, some big losses on hurricanes or something of the sort, or we'll have a [Hurricane] Sandy in New York.

The — but GEICO is a jewel. And it's — you know, it's really a — we've got some others we feel awfully close to similarly about, but it's an incredible company. It has a culture all of its own. It's saving its customers probably 4 or $5 billion a year against which they would — against what they would otherwise be paying, based on the average in auto insurance. And it will be profitable on underwriting a very high percentage of the year. It contributed another $2 billion to float last year.

It is a terrific company. And like I say, the first four months are dramatically better.

Now, there's some seasonal in auto insurance. So, the first quarter is usually the best of the four quarters. But it's not a dramatic seasonal. So, I think when you read the 10-Q — and you can take my word for April — I think GEICO is on a good profit track as well as a good growth track. And the more it grows, the better I like it.

Charlie?

CHARLIE MUNGER: Well, I think you've said it perfectly.

WARREN BUFFETT: Huh.

CHARLIE MUNGER: It was never very bad, and it's better now. (Buffett laughs)

18. Munger on steel tariffs: "Even Donald Trump can be right"

WARREN BUFFETT: OK. Station five.

AUDIENCE MEMBER: Good morning, Warren Buffett and Charlie Munger. My name is Ethan Mupposa (PH), and I am from Omaha, Nebraska.

My question is, how will Donald Trump's tariffs affect the manufacturing business of Berkshire Hathaway?

WARREN BUFFETT: Well, to date — (applause) — steel costs — we've seen steel costs increase somewhat. But as I said earlier, I don't think the United States or China — there'll be some jockeying back and forth, and there will be something that leaves some people unhappy and — but I don't think — I don't think either country will dig themselves into something that precipitates and continues any kind of real trade war in this country.

We — we've had that in the past a few times. And I think we've learned a general lesson on it.

But there will — there will be some things about our trade policies that irritate others. And there will be some from others that irritate us. And there will be some back and forth. But in the end, I don't think we'll come out with a terrible answer on it.

Charlie, I'll let you —

CHARLIE MUNGER: Well, steel has — it reached — the conditions in steel were almost unbelievably adverse to the American steel industry.

You know, even Donald Trump can be right on some of this stuff. (Laughter and applause)

WARREN BUFFETT: The — the thing about trade — you know, I've always said that the president, whether it's president — any president — needs to be an educator-in-chief, which [Franklin] Roosevelt was in the Depression. That's why he had those Fireside Chats, and it was very important that he communicated to the people what needed to be done and what was happening around them, and —

Trade is particularly difficult, because the benefits of trade are basically not visible, you know. You don't know what you would be paying for the clothes you're wearing today if we'd had a rule they all had to be manufactured in the United States, or what you'd be paying for your television set, or whatever it may be.

No one thinks about the benefits day-by-day as they walk around buying things and carrying on their own business.

The negatives, and there are negatives, are very apparent and very painful. And if you're laid off — like happened in our shoe business [Dexter Shoes] in Maine — and you know you are — been a very, very, very good worker, and you were proud of what you did, and maybe your parents did it before you, and all of a sudden you find out that American shoes — shoes manufactured in America — are not competitive with shoes made outside the United States.

You know, you can talk all you want about Adam Smith or David Ricardo or something and explain the benefits of free trade and comparative advantage and all that sort of thing, and that doesn't make any difference.

And if you're 55 or 60 years old, to talk about retraining or something like that, you know, so what?

So, I — it is tough in politics where you have a hidden benefit and a very visible cost to a certain percentage of a — of your constituency.

And you need to do two things under those circumstances, if you have that situation. You know what's good for the country. So, you have to be very good at explaining how it does really hurt, in a real way, somebody that works in a textile mill, like we had in New Bedford, where you only spoke Portuguese — half our workers only spoke Portuguese. And suddenly, they have no job. And they've been doing their job well for years.

You've got to do two things. You can — you'll have to — you have to understand that that's the price individuals pay for what's good for the collective good.

And secondly, you've got to take care of the people that are — that — where retraining is a joke because of their age, or whatever it may be. And you've got to take care of the people that become the roadkill in something that is collectively good for us as a country. And —

That takes society acting through its representatives to develop the policies that will get us the right collective result, and not kill too many people economically in the process. And you know, we've done that in various arenas over the years.

The people in their productive years do help take care of the people that are too old, and too young. I mean, every time a baby is born in the United States, you know, we take on an obligation of educating them for 12 years. It'll cost $150,000 now, you know? It —

We have a system that has a bond between the people in their productive years and the ones in the young and old. And it gets better over time. It's far from perfect now. But it has gotten better over time.

And I believe that trade, properly explained, and with policies that take care of the people that are roadkill, is good for our country and can be explained.

But I think it's a tough — it's been a tough, tough sell to a guy that made shoes in Dexter, Maine or worked on a loom in New Bedford, Mass, or works in the steel mill in Youngstown, Ohio. (Applause)

19. Buffett won't impose his political opinions on Berkshire

WARREN BUFFETT: Andrew?

ANDREW ROSS SORKIN: OK, Warren. This question comes from a Berkshire shareholder who says they've been a shareholder for ten years. I should say this may be one of the most pointed questions I've ever received for you. So —

WARREN BUFFETT: But you elected to give it, though.

ANDREW ROSS SORKIN: But I did. (Laughter)

The shareholder writes, “I have watched the movie every year at this meeting, when you testify in front of Congress on behalf of Salomon, as the symbol of what it means to have a moral compass. Investors are increasingly looking to invest in companies that are socially and morally responsible.

“So I was disturbed when you were asked on CNBC about the role that business could play in sensible policies around the sales of guns.

“You said you didn’t think business should have a role at all, and you wouldn’t impose your values on others. I was even more surprised when you said you’d be OK with Berkshire owning shares in gun manufacturers.

“At this meeting years ago, you said you wouldn’t buy a tobacco company because of the social issues. The idea that Berkshire would associate with any company as long as it isn’t illegal seems at odds with everything I think you stand for. Please tell us you misspoke.”

WARREN BUFFETT: Well — (applause) — let’s explore that a little. (Laughter)

Should it be just my view, or should it be the view of the owners of the company? So, if I decide to poll the owners of the company on a variety of political issues, and one of them being whether, you know, Berkshire Hathaway should support the NRA, I don’t — if a majority of the shareholders voted to do it, or if a majority of the board of directors voted to do it, I would — I wouldn’t — I would accept that.

I don’t think that the — my political views — I don’t think I put them in a blind trust at all when I take the job. And I — in the elections of 2016, I raised a lot of money. In my case, I raised it for Hillary [Clinton]. And I spoke out in various ways that were quite frank, but — (applause) — I don’t think that I speak —

When I do that, I don’t think I’m speaking for Berkshire. I’m speaking as a private citizen. And I don’t think I have any business speaking for Berkshire. We have never — at the parent company level — we have never made a political contribution, you know —

And I don't go to our suppliers. I don't do anything of that sort where I raise money either for the school I went to, or for a political candidate I went to, or anything else.

And I don't think that we should have a question on the GEICO policyholder form, "Are you an NRA member?" you know, and if you are, you just aren't good enough for us, or something. That — I think —

I do not believe in imposing my political opinions on the activities of our businesses.

And if you get to what companies are pure and which ones aren't pure — (applause) — I think it is very difficult to make that call. Thank you.

I think with that response, I'm almost afraid to call on Charlie. But go ahead, Charlie. (Laughter)

CHARLIE MUNGER: Well, obviously, you do draw a limit, Warren —

WARREN BUFFETT: Yeah, we did.

CHARLIE MUNGER: — in all kinds of thing —

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: — which are beneath us, even though they're legal. But we don't necessarily draw it perfectly because we've got some sort of supreme knowledge. We just do the best we can.

And certainly, we're not going to ban all guns, surrounded by wild turkeys in Omaha. (Laughter)

20. "Very unlikely" Berkshire would pay a special dividend

WARREN BUFFETT: OK, Gregg. (Laughter)

GREGG WARREN: Warren, this question's also based on something you said more recently, so I can't guarantee it's going to be any easier. (Buffett laughs)

You recently noted that you prefer share repurchases over dividends as a means for returning capital to shareholders should Berkshire's cash balances continue to rise and hit the $150 billion threshold you noted as being difficult to defend to shareholders at last year's annual meeting.

While I understand the rationale for not establishing a regular dividend, a one-time special dividend could be a useful option for returning a larger chunk of Berkshire's excess capital to shareholders without the implied promise to keep paying a regular dividend forever.

The drawback with the special dividend, though, is that it would lead to an immediate decline in book value and book value per share. Whereas a larger share repurchase effort, while depressing book value, would reduce Berkshire's share count, limiting the impact on book value per share.

If we do happen to get a few years out and Berkshire does hit that $150 billion threshold, because valuations continue to be too high, both for acquisitions and for the repurchase of company stock, would you consider a one-time special dividend as a means for returning capital to shareholders?

WARREN BUFFETT: Well, if we thought we couldn't use capital effectively, we would figure — we would try to figure out the most effective way of returning capital to shareholders. And — you could — I would have probably — I think it'd be unlikely we'd do it by a special dividend.

I think it'd be more likely we'd do it by a repurchase, if the repurchase didn't result in us paying a price above intrinsic value per share. We're never going to do anything that we think is harmful to continuing shareholders.

So if we think the stock is intrinsically worth X, and we would have to pay some modest multiple even above that to repurchase shares, we wouldn't do it because we would be hurting continuing shareholders to the benefit of the people who are getting out.

But we will try and do whatever makes the most sense, but not with the idea that we have to do something every day because we simply can't find something that day.

We had a vote as you know — I don't know, a few years back — on whether people wanted a dividend. And — the B shares — so I'm not talking my shares or Charlie's or anything — but the B shares voted 47 to one against it.

So I think through self-selection of who become shareholders — I don't think shareholders world — or countrywide — on all stocks would vote 47 to one at all.

But we get self-selection in terms of who joins us. And I think they expect us to do whatever we think makes sense for all shareholders. And obviously, if we really thought we never could use the money effectively in the business, we should get it out, one way or another. And —

You've got a bunch of directors who own significant — very significant — amounts of stock themselves. And you can expect them to think like owners. It's the reason they're on the board.

And you can expect the management to think like owners and — owners will return money to all of the owners if they think it makes more sense than continuing to look for things to do.

But we invested in the first quarter, maybe — have to look it up on the — well, certainly through April — probably close to 15 billion or something like that, net, so —

And we won't always be in a world of very low interest rates — or high private market prices.

So we will do what makes the most sense. But I can't see us ever making a special — almost — it's very unlikely we would just pay out a big, special dividend. I think that if we put that to the vote of the shareholders, and Charlie and I did not vote, I think we would get a big negative vote. And I'd be willing to — be willing to make a bet on that one.

Charlie?

CHARLIE MUNGER: Well, as long as the existing system continues to work as well as it has, why would we change it? We've got a whole lot of people that are accustomed to it, have done well under it. And if conditions change, why, we're capable of changing our minds, if the facts change.

WARREN BUFFETT: Yeah, and we've done that several times.

CHARLIE MUNGER: Yes.

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: Although, I must say, it's a little hard. (Laughter)

WARREN BUFFETT: He always brings me back to earth.

21. Munger is more interested than Buffett in Chinese stocks

WARREN BUFFETT: OK. Station 6?

AUDIENCE MEMBER: Hi, good morning, Mr. Buffett and Mr. Munger. My name is Stephie Yu from Horizon Insights, a China-focused research firm based in Shanghai. So I have a lot of mutual fund clients in China, who are very young — relatively younger — and they manage a smaller portion of funds.

So my question is, if you only have $1 billion in your portfolio today, how would you change your investments? Would you consider more investment opportunities in emerging markets such as China? Thank you.

WARREN BUFFETT: Yeah. I would say, if I were working with a billion, I would probably find — within a $30 trillion market in the United States, where I understood things better, generally, than I do around the world — I'd probably find opportunities there that would be better, incidentally, by some margin, than what we can find for hundreds of billions.

But I wouldn't — there's no way I'd rule out emerging markets. There was a time, 15 years ago or so, when just because it was kind of interesting and it took me back to my youth, I — on the weekend, I went through a directory of Korean stocks. And I bought — and these were small stocks — well, they weren't small by standards of either Korean or American business. They were big, big companies.

But I found 15 or 20 in — that were statistically cheap and bought some of each one myself.

And there are opportunities with smaller amounts of money to do things that we just can't do. And — but I — my first inclination always would be to comb through things in the United States. And —

But I've combed through — in other countries. I probably wouldn't get into very, very small markets because there can be a lot of difficulties even in market execution and taxation, (inaudible).

You can find — if you can't find it, you know, in America and China and Britain and a few other places — (laughs) — you probably aren't going to find it someplace else. You may think you've found it. But that may be — it may be a different game than you know. Our problem is size, not geography.

Charlie?

CHARLIE MUNGER: Well, I already have more stocks in China than you do, as a percentage, so I'm with the young lady. (Laughter)

WARREN BUFFETT: OK. Well, you can — you want to name names? Do these stocks have names? Or — (Laughs)

CHARLIE MUNGER: No, I don't. (Buffett laughs)

WARREN BUFFETT: Carol?

CAROL LOOMIS: This question is —

WARREN BUFFETT: I should just add one thing. You will find plenty of opportunities in China. Charlie would say you've got a better hunting ground than even a person with similar capital in the United States. Would you agree with —?

CHARLIE MUNGER: Yes, I do.

WARREN BUFFETT: Yeah, yeah. So — and in the sense they're — it's logical that should be the case because it's a younger market, but still a large market. So that —

Markets probably work toward efficiency as they age. Japan had this very strange situation with warrants being priced out of line and all of that 30 years ago. And people notice after a while and it disappears. But there can be — some very strange things happen in markets as they develop. I think you'd agree with that, Charlie, wouldn't you?

CHARLIE MUNGER: Absolutely.

WARREN BUFFETT: Yeah.

22. Munger: Keep the faith and don't sell your stock when we're gone

WARREN BUFFETT: Jonathan?

JONATHAN BRANDT: Hello —

CAROL LOOMIS: You skipped me.

WARREN BUFFETT: Did I skip —? I skipped Carol?

CAROL LOOMIS: Yup.

WARREN BUFFETT: Oh. I'm sorry.

CAROL LOOMIS: OK.

WARREN BUFFETT: OK.

CAROL LOOMIS: This question, and I would concede it is not a small one, comes from Gideon Pollack of Montreal.

He says, "The world knows generally how the looks of Berkshire Hathaway have changed since you began to run the company in 1965. Berkshire was then a tiny northeastern, textile company. And now it is the number-four company on the Fortune 500.

"What about the next 50 years? Could you give us your view of what Berkshire looks like in 2068?"

WARREN BUFFETT: I think it'll look a long way away. (Laughter)

No, the answer is I don't know. And I didn't know, 50 years ago, what it would like now, I mean —

It will be based on certain principles. But where that leads, you know, we will find out and we'll have people that are thinking about different things than I am. And we'll have a world that's different. But —

We will be — I very much hope and believe that we will be — that we'll be as shareholder-oriented as any large company in the world. We will look at our shareholders as partners and we will be trying to do with their money exactly what we'd do with our own, not seeking to get an edge on them. And who knows what else will be happening then?

Charlie?

CHARLIE MUNGER: Well, I want to talk to the younger shareholders in the group. Those of you who, after we are gone, sell your Berkshire stock and do something else with it, helped by your many friends, I think are going to do worse. (Laughter)

So I would advise you to keep the faith. (Applause)

By the way, some of that has already happened in many families.

WARREN BUFFETT: I'll give his answer next time now that I see it get all of that applause. (Laughter)

23. “Duracell should be earning more money than it is now”

WARREN BUFFETT: Jonathan.

JONATHAN BRANDT: Duracell’s $82 million of pretax profits in 2017 were still well below what it earned as a subsidiary of P&G. Can you clarify or quantify to what extent transition costs or purchase price accounting impacts at the segment level were still temporarily burdened last year? Or is it possible that the gap in earnings contribution simply reflects a commoditization of the category given the entry of Amazon into the battery market?

I did see that Duracell’s earnings were up in the first quarter. Is that a sign of a more meaningful contribution in 2018 and beyond, as you finish right-sizing the manufacturing footprint and acquisition-related charges fall away?

WARREN BUFFETT: Yeah. Duracell should be earning more money than it is now, and will be. And as you mentioned, it’s well on its way there. But it is not earning an appropriate amount now, based on the history of the company.

I was around when — I was on the board of Gillette when Gillette bought Duracell. And I’ve seen what it does when it is managed to its full extent. And I saw what Jim Kilts did with it at Gillette when he ran it. And there were a lot more transition problems in the purchase. For one thing, there’s a lot of rules connected with our swap of our stock in P&G for Duracell. There are a lot of things which you cannot do that made sense to do in that period of transition from P&G’s management to ours. But Duracell — the brand is strong. Very strong.

The product line is very strong. And we are making more money. And we should, and I believe we will earn, really, what the property is capable of earning. We should be earning that relatively soon.

But you’re absolutely right that it is — from a profit standpoint — is underperforming.

We’re making a lot of changes. And some of those are involved in jurisdictions — countries — where it is really expensive to change in terms of employment — payments that have to be made if a plant is changed or something of the sort.

But I like the Duracell deal absolutely as well as when we made it.

Charlie?

CHARLIE MUNGER: I like it better than you do. (Laughter)

WARREN BUFFETT: No. Duracell is a very, very — is our kind of business.

CHARLIE MUNGER: It is.

24. Long-term bonds are "almost ridiculous" at current rates

WARREN BUFFETT: OK. Station 7.

AUDIENCE MEMBER: Good morning. And I have a question related to the bond market — U.S. Treasury bond market. And my name is Ola Larsson (PH). I live in the San Francisco bay area.

And I never worked in the financial industry. I started out buying penny mining stocks on the Vancouver Stock Exchange. And then decades later, I got married. And my wife convinced me to buy Berkshire shares. That was probably a good decision. (Laughter)

So my question is, I read the newspapers about the Federal Reserve and the inflation numbers. And there must be an increase supply of Treasury bonds that must go to auction. And my question is how would — what do you expect that to impact yield or interest rate?

WARREN BUFFETT: Yeah. The answer is, I don't know. And the good news is, nobody else knows, including members of the Federal Reserve and everyone —

There are a lot of variables in the picture. And the one thing we know is we think that long-term bonds are a terrible investment, and we — at current rates or anything close to current rates.

So basically all of our money that is waiting to be placed is in Treasury bills that, I think, have an average maturity of four months, or something like that, at most.

The rates on those have gone up lately, so that in 2018, my guess is we'll have at least $500 million more of pretax income than we would've had in the bills last year.

But they still — it's not because we want to hold them. We're waiting to do something else.

But long-term bonds — they're basically, at these rates — it's almost ridiculous when you think about it. Because here the Federal Reserve Board is telling you we want 2 percent a year inflation. And the very long bond is not much more than 3 percent. And of course, if you're an individual, then you pay tax on it. You're going to have some income taxes to pay.

And let's say it brings your after-tax return down to 2 1/2 percent. So the Federal Reserve is telling you that they're going to do whatever's in their power to make sure that you don't get more than a half a percent a year of inflation-adjusted income.

And that seems to me, a very — I wouldn't go back to penny stocks — but I think I would stick with productive businesses, or productive — certain other productive assets — by far.

But what the bond market does in the next year, you know — you've got trillions of dollars in the hands of people that are trying to guess which maturity would be the best to own and all that sort of thing. And we do not bring anything to that game that would allow us to think that we've got an edge.

Charlie?

CHARLIE MUNGER: Well, it really wasn't fair for our monetary authorities to reduce the savings rates, paid mostly to our old people with savings accounts, as much as they did. But they probably had to do it to fight the Great Recession, appropriately.

But it clearly wasn't fair. And the conditions were weird. In my whole lifetime, it's only happened once that interest rates went down so low and stayed low for a long time.

And it was quite unfair to a lot of people. And it benefited the people in this room enormously because it drove asset prices up, including the price of Berkshire Hathaway stock. So we're all a bunch of undeserving people — (laughter) — and I hope that we continue to be so. (Laughter)

WARREN BUFFETT: At the time this newspaper came out in 1942, it was — the government was appealing to the patriotism of everybody. As kids, we went to school and we bought Savings Stamps to put in — well, they first called them U.S. War Bonds, then they called them U.S. Defense Bonds, then they called them U.S. Savings Bonds. (Laughs) But they were called war bonds then.

And you put up $18.75 and you got back $25 in ten years. And that's when I learned that that $4 for three — in ten years — was 2.9 percent compounded. They had to put it in small print then.

And even an 11-year-old could understand that 2.9 percent compounded for ten years was not a good investment. But we all bought them. It was — you know, it was part of the war effort, basically.

And the government knew — I mean, you knew that significant inflation was coming from what was taking place in finance, in World War II.

We actually were on a massive Keynesian-type behavior, not because we elected to follow Keynes, but because war forced us to have this huge deficit in our finances, which took our debt up to 120 percent of GDP. And it was the great Keynesian experiment of all time, and we backed into it, and it sent us on a wave of prosperity like we've never seen. So you get some accidental benefits sometimes.

But the United States government (inaudible) every citizen to put their money into a fixed-dollar investment at 2.9 percent compounded for ten years. And I think Treasury bonds have been unattractive ever since — (laughs) — with the exception of the early '80s. That was something at that time.

I mean, you really had a chance to buy — you had a chance to invest your money by buying zero-coupon Treasury bonds, and in effect, guarantee yourself that for 30 years you would get a compounded return, you know, something like 14 percent for 30 years of your lifetime.

So every now and then, something really strange happens in markets and the trick is to not only be prepared but to take action when it happens.

Charlie, did you ever buy any war bonds?

CHARLIE MUNGER: No. No. I never bought war bonds.

WARREN BUFFETT: No. Used to be like take me —

CHARLIE MUNGER: I didn't have any money when I was in the war. (Laughter)

WARREN BUFFETT: That's a good reason not to buy. (Laughs)

25. "A bureaucracy is sort of like a cancer"

WARREN BUFFETT: OK, Becky?

BECKY QUICK: This question comes from Angus Hanton (PH), who — he and his wife are based in London, and he says they've been shareholders in Berkshire Hathaway for over 30 years.

He says, "We have all read about the zero-based budgeting that has been so effective with Kraft Heinz and other investments that you've done with 3G Partners. Can we expect these cost-reduction techniques to be used by your managers in other parts of the Berkshire Hathaway enterprise?"

WARREN BUFFETT: Well, in general, we do not expect the managers, generally, to get in the position where there would be a lot of change in terms of zero-based budgeting. In other words, why in the world aren't you thinking that way all of the time?

The 3G people have gone into certain situations where there were — probably primarily in personnel, but in other expenses as well — a lot of expenses that were not delivering a dollar of value per dollar expended.

And so, they made changes very fast that — to a situation that probably shouldn't have existed in the first place.

Whereas, we hope that our managers — take a GEICO. GEICO's gone from, I think, 8,000 to 39,000 people since we bought control. But they're all very productive. I mean, you would not find a way for a 3G operation to take thousands of people out of there.

On the other hand, I can think of some organizations where you could take a whole lot of people out, where it isn't being done because the businesses are very profitable to start with.

That's what happened with the tobacco companies, actually. They were so profitable that they had all kinds of people around that didn't — weren't really needed. But they — the money just flowed in.

So I — our managers have different techniques of keeping track of — or of — trying to maximize customer satisfaction at the same time that they don't incur other than necessary costs.

And I think, probably, some of our managers may well use something that's either zero-based budgeting or something akin to it. They do not submit budgets — never have — to me. I mean, they've never been required to. We've never had a budget at Berkshire.

We don't consolidate our figures monthly. I mean, I get individual reports on every company. But there's no reason to have some extra time spent, for example, by having consolidated figures at the end of April, or consolidated figures at the end of May.

We know where we stand. And — you know, I'm sure we're the only company that — probably in the whole Fortune 500 — that doesn't do it. But we don't do unnecessary things around Berkshire. And a lot of stuff that's done at big companies is unnecessary. And that's why a 3G finds opportunities from time to time.

Charlie?

CHARLIE MUNGER: Well, if you've got 30 people at headquarters and half of those are internal auditors, that is not the normal way of running a big company in America.

And what's interesting about it is, obviously, we lose some advantages from big size. But we also lose certain disadvantages from having a big bureaucracy with endless meeting after meeting after meeting around headquarters.

And net, I think we've been way ahead with our low overhead, diversified method. And also, it makes our company attractive to very able, honorable people who have companies.

So generally speaking, the existing system has worked wonderfully for us. I don't think we have the employment that could be cut effectively that a lot of other places have. And I think our methods have worked so well that we'd be very unlikely to change them.

WARREN BUFFETT: Yeah. I think if some — at headquarters, you could say we have kind of subzero-based budgeting. (Laughter)

And we hope that the example of headquarters is, to a great extent, emulated by our —

CHARLIE MUNGER: But it isn't just the cost reduction. I think the decisions get made better if you eliminate the bureaucracy.

WARREN BUFFETT: Oh yeah.

CHARLIE MUNGER: I think a bureaucracy is sort of like a cancer. And it functions sort of like a cancer. (Applause)

And so, we're very anti-bureaucracy. And I think it's done us a lot of good. In that case, we're quite different from, say, Anheuser-Busch at its peak.

26. We're experimenting with lower-cost commercial insurance

WARREN BUFFETT: OK. Gary.

GARY RANSOM: My question is on small commercial, and specifically, direct small commercial.

You seem to have some websites that enable buyers to purchase small commercial insurance directly; biBERK is one of them.

It's a very competitive, fragmented market. But what is your strategy for that market? And then, can you ultimately GEICO-ize the small commercial market?

WARREN BUFFETT: Well, we'll find out. I mean, it's a very good question because that's exactly the question we ask ourselves.

And we have this incredible company at GEICO, which has gone direct in the personal auto field, and was, you know, first started it in 1936.

And there's no question in my mind that over a lot of years — and maybe not so many years — something like small commercial — anything that takes cost out of the system, you know, makes it easier for the customer, is going to work over time, if you've got a system that was based on something that had more layers of agency costs and that sort of thing.

So we are experimenting, and we'll continue to experiment, on something like small commercial, workers' comp, whatever it may be. We'll try and figure out ways to take cost out of the system, offer the customer an equivalent product or better at lesser price, and we'll find out what can be done and what can't be done.

And we're not the only ones doing it, as you know. But we are not going — we've got some managers that are going to be quite, I'm sure, enterprising on that. And we back them. And we expect some to fail and some — and if a few succeed — we'll have some very good businesses. And the world is going in that direction. So — you could expect us to try and go with it.

Charlie?

CHARLIE MUNGER: Well, if it were easy, I think it would've happened more fast —

WARREN BUFFETT: Yeah —

CHARLIE MUNGER: — than it has.

WARREN BUFFETT: It will happen as we go along. I mean, it wasn't easy in auto, I mean, when you think about it.

CHARLIE MUNGER: No, it wasn't.

WARREN BUFFETT: No. I mean, it was a system with all kinds of extra costs that go back to the turn of the 19th century into the 20th. I mean, it was built on fire insurance and strong general agencies. And that slopped over into auto when the auto came along in 1903 from Ford or whenever. And — so it grew within a system that really wasn't very efficient compared to what was available.

But it took State Farm initially to go to a direct, or a captive agency system. And then it took USAA, and then later, GEICO, and then later, Progressive, to go to direct systems that are even more efficient and consumer-friendly.

And the same thing is going to happen, to some degree, in all kinds of industries, and certainly small commercial — somebody will —

CHARLIE MUNGER: It could happen, but it will be slow.

WARREN BUFFETT: It takes an amazingly long time. I mean, it — but you know, the battle doesn't always go to the strong and the race to the swift. But that's the way to bet, you know, as they say. So — (Laughs)

27. Health care partnership is attacking a huge "industry moat"

WARREN BUFFETT: OK, station 8?

AUDIENCE MEMBER: Austin Merriam, from Jacksonville, Florida.

Mr. Buffett, with the recent news of the partnership between you, Mr. [Jeff] Bezos, and Mr. [Jamie] Dimon, to challenge the health care industry and the self-admitted difficulties you are running across, this would lead me to believe the industry has higher barriers to entry than may have originally been hypothesized; a larger moat, if you will.

Would that justify a higher earnings multiple for established players in the industries, such as PBMs, for example?

WARREN BUFFETT: Well, just — though the system may have a moat against intruders, it doesn't mean that everybody operating within the system has individual moats, for one thing.

Now, I — we are — if this new triumvirate succeeds at all, we are attacking an industry moat. And I'm defining industry very broadly; health care, not just, you know, health care insurers or this or that.

We're trying to figure out a better way of doing it and making sure that we're not sacrificing care. And the goal is to improve care.

And like I say, that is a — that's a lot bigger than a single company's moat. It's bigger than a component of the industry's moat. The moat held by the whole system, since it interacts in so many ways, is actually — that's the moat that essentially has to be attacked, and that's a huge moat.

And like I say, we'll do our best. But — I hope if we fail, I hope somebody else succeeds.

Charlie?

CHARLIE MUNGER: Well, I suspect that eventually when the Democrats control both houses of Congress and the White House, we will get single-payer medicine. And I don't think it's going to be very friendly to many of the current PBMs. (Applause)

And I won't miss them. (Laughter)

28. Buffett vs Elon Musk on whether competitive moats are "lame"

WARREN BUFFETT: Andrew?

ANDREW ROSS SORKIN: This question comes from Kiwi (PH) and actually is directly about the issue of moats.

He notes that — "Elon Musk, this week, on his Tesla earnings call, said the following, quote, 'I think moats are lame. They are, like, nice in a sort of quaint, vestigial way. And if your only defense against invading armies is a moat, you will not last long. What matters is the pace of innovation. That is the fundamental determinant of competitiveness,' unquote.

"So, Warren, it seems the world has changed. Business is getting more competitive. Pace of innovation. Technology is impacting everything. Is Elon right?"

CHARLIE MUNGER: Let me answer that one, Warren.

Elon says a conventional moat is quaint. And that's true of a puddle of water. And he says that the best moat would be to have a big competitive position. And that is also right. You know, it's ridiculous. (Laughter)

Warren does not intend to build an actual moat. (Laughter)

Even though they're quaint.

WARREN BUFFETT: Yeah. (Laughter)

There's certainly a great number of businesses — this has always been true, but it does seem like it — the pace has accelerated and so on, in recent years. There's been more moats that have been — become susceptible to invasion — than seemed to be the case, earlier. But there's always been the attempt to do it.

And there — here and there, there are probably places where the moat is as strong as ever. But certainly — you could work at — certainly should be working at improving your own moat and defending your own moat all of the time. And Elon may turn things upside down in some areas.

I don't think he'd want to take us on in candy. But — (Laughter)

And we've got some other businesses that wouldn't be so easy to —

You can look at something like Garanimals out there in the other room. And — it won't be technology that takes away the business in — (laughs) — Garanimals. Maybe something else that catches the young kid's fantasy or something.

But — there are some pretty good moats around. Being the low-cost producer, for example, is a terribly important moat. And something like GEICO — technology has really not brought down the cost that much. I think our position as — there is a couple of companies that have costs as low as ours. But among big companies, we are a low-cost producer, and that is not bad when you're selling an essential item.

29. Not surprised "if we find good uses" for Berkshire Hathaway Energy's capital

WARREN BUFFETT: OK, Gregg?

GREGG WARREN: Warren, Berkshire Energy has benefited greatly from operating under the Berkshire umbrella. By not having to pay out 60 to 70 percent of earnings annually as a dividend, the company was able to amass 9 billion in capital the past five years, and closer to 12 billion in the past ten, money that can be allocated to acquisitions and capital spending, especially on renewables.

While tax credits for solar energy don't run out until next year, we've already seen a dramatic reduction in Berkshire Energy's capital commitment to solar projects. And even though spending on wind generation capacity is projected to be elevated this year and next, it does wind down in 2020 as the wind production tax credits are phased out.

Absent a major commitment to additional capital projects, it looks like Berkshire Energy's expenditures in 2021 will be its lowest since 2012, leaving the firm with more cash on hand than it has had in some time.

Do you think it is likely at that point that Berkshire Energy starts funneling some of that cash up to the parent company? Or will it be earmarked for debt reduction, or just be left on the balance sheet as dry powder for acquisitions?

WARREN BUFFETT: Yeah. The — you're right about when tax credits phase out and all of that. Although, as you know, they've extended that legislation in the past. Who knows exactly what the government's position will be on incentivizing various forms of alternative energy?

But my guess is — I mean, if you take the logical expenditures that may be required in all aspects of the public — like regeneration and the utility business generally — I think there'll be a lot of money spent.

And the question is whether we can spend it and get a reasonable return on it. There again, we'll do what's logical.

There are three shareholders, basically, of Berkshire Hathaway Energy. Berkshire Hathaway itself owns 90 percent of it. And Greg Abel and his family, perhaps, and Walter Scott and, again, family members — own the other 10 percent. And we all have an interest in employing as much capital as we can at good rates.

And we'll know when it can be done and when it can't be done. And we'll do — there's no tax consequences to Berkshire at all. So — but the three partners will figure out which makes the most sense.

But when you think of what might be done to improve the grid in the U.S. and the fact that we do have the capital, I wouldn't be surprised if we find good uses for capital in Berkshire Hathaway Energy for a long time in the future.

Charlie?

CHARLIE MUNGER: Yeah. Well, I think there'll be huge opportunities in Berkshire Energy as far ahead as you can see to deploy capital very intelligently. So I think the chances of a big dividend is approximately zero.

WARREN BUFFETT: Yeah. And we've not only got the money to an extent that virtually no utility company does — we've also got the talent, too. I mean, we've got a very, very talented organization there.

So it's a big field and we've got shareholders that are capitalists. And we've got managers that are terrific. And you would think we'd find something intelligent to do over time in the field.

So far, we have. I mean, we've owned it now for close to 20 years. And we've deployed a lot of capital and so far, so good. I mean, it's —

If you look at the improvements that can be made in our utility system in the United States, you're talking hundreds and hundreds and hundreds of billions of dollars, if not trillions. So — you know, where else but Berkshire would you look for that kind of money? (Laughs)

30. "We do expect that normalized earning power to increase over time"

WARREN BUFFETT: OK, station 9.

AUDIENCE MEMBER: I'm Richard Sercer (PH) from Tucson, Arizona.

"At Berkshire what counts most are increases in our normalized per-share earning power." That was in your last letter. What is our normalized per-share earning power, as you estimate it?

WARREN BUFFETT: Well, I would say that what you saw in the first quarter, under these tax rates, would probably be a reasonable guess. You know, obviously, it depends on the economy in any given year. I would say that would — is a reasonable estimate.

But we have firepower we haven't used. And we'll have more firepower as we go along. So we do expect that normalized earning power to increase over time. And if it doesn't, you know, one way or another, we're failing you because we're retaining those earnings.

So — I don't see anything abnormal in our earnings, figured now at a 21 percent federal rate. But as I look at the 5 1/4 billion in the first quarter — seasonally, insurance is better in the first quarter — but seasonally, most of our businesses, the first quarter is not the strongest quarter for us. I don't see anything abnormal with it.

And then I think you can expect, you should expect, we expect, substantial capital gains over time in addition to what comes from the operating businesses.

So how much you figure in for that — I would say that the retained earnings beyond dividends of our 770 billion of equities — in other words, how much they're keeping from us, but that our share of the earnings, which can be used by them, whether it's Apple or American Express or Coca-Cola or Wells Fargo or whatever, our share, you know, is in many billions of dollars annually. And one way or another, we think that those dollars will benefit us as much as if they had been paid out.

Now, in certain cases, they won't. But in certain cases, they'll excel the amount, in terms of market value created.

So there's many billions of dollars we are not showing in our earnings that is being retained by our investees. And one way or another, I think we'll get value received out of those.

So you can take 20 or 21 billion under present tax rates, present economic conditions, and then we should get something from that and we should get more when we get 100 billion of cash invested. And we should get more as we retain the earnings. So we hope it adds up to a bigger number as we go along.

Charlie?

CHARLIE MUNGER: Well, I don't think our shareholders are going to see another increase in net worth of $65 billion in a single year. They may have to wait a while for another. But I don't think that — I think eventually there — another will come, and then another. Just be patient. (Laughter)

WARREN BUFFETT: We don't regard the present situation as, you know, as disadvantageous, except we'd like to get more money out. But we like the businesses we have. We like the businesses that we own part of. We are not reflecting — in the way we look at earnings — the dividends we get from those partially-owned companies falls far short of what they're going to contribute, in our view, to Berkshire's overall earnings over time. We wouldn't own those stocks otherwise. So —

CHARLIE MUNGER: And you also like the Apple and airline stocks you've recently purchased better than the cash you parted with.

WARREN BUFFETT: Absolutely. Yeah.

CHARLIE MUNGER: And that's quite a lot.

WARREN BUFFETT: Yeah, yeah, yeah. OK. We won't pursue that further. Carol? (Laughter)

31. No "unusual profits involved in being a real estate agent"

CAROL LOOMIS: This question is from Daniel Kane (PH) of Atlanta.

“Your annual letter this year pointed out that Berkshire has become a leader in real estate brokerage in the United States. Congratulations. That is a significant feat in less than 20 years.

“But let me mention a sticky point. If fees charged by stock market active managers are a drag on investor performance, I would argue that real estate commissions are no different, and perhaps more detrimental, especially when one considers the lifetime effects of large, forgone, upfront cash flows and the power of compounding interest. I would be pleased to hear your rejoinder on the points I’ve raised.”

WARREN BUFFETT: Well, the purchase of a home is the largest financial transaction, for a significant percentage of the population, that they make. And — people — a lot of people need a lot of attention. And you can show a lot of houses before you sell one.

I would say this. If you look at our close to 50,000 agents now, I think they make a good living — or a decent living. But I would say that that people who manage money make a whole lot more money with perhaps less contribution to the welfare of the person that they are dealing with.

So I don’t think that there are unusual profits involved in being a real estate agent. I don’t think there are unusual profits involved in the ownership. We like it because it’s fundamentally a good business.

But here we are, doing 3 percent of all the real estate transactions in the United States, and we’re making, maybe, $200 million a year — which — well, we won’t get into what the comparative efforts are in Wall Street to earn $200 million. But —

I think I have to tell them about Roy Tolles a little bit on this. Roy Tolles, for example — Charlie’s partner — many, many, many years ago, decided he was going to want to buy a house in San Marino. He’s going to have a number of kids.

So he sent his wonderful wife, Martha, out. And for six months, he had her look at houses in San Marino. And this was many years ago. And if they were priced at 150,000, she would offer (inaudible), or offer 75,000. And of course, the real estate agents were going crazy because they’re never going to get something listed at 150 sold at 75.

And then finally, when she found one that they both really liked, he had her offer something like 120 and the real estate was so happy to get a bid that was in the general area — (laughs) — of the offering price that he would work very hard on the seller to take that bid. Because he knew what — (laughs) — he did not want six more months of Roy bidding at the lower prices. So you don't sell them on the first trip.

Incidentally, I had Roy buy a house for me, sight unseen, because this was a guy that — (laughs) — knew human nature.

You don't get rich — real estate agency — you know, the people earn their money, and they earn it in a perfectly respectable and honorable manner in terms of what they get paid. And as in every single industry there is, you know, there can be excesses or mistakes or that sort of thing.

But we will continue to buy more brokers. In fact, we'll probably have another couple to announce before long.

And we will feel that if we get to where we're doing 10 percent of the real estate brokerage business in the country and we're making 6- or $700 million a year, pretax, we will not think that's a crazy amount of money to make for enabling 10 percent of 5 million people to change their homes every year in the United States.

Charlie?

CHARLIE MUNGER: Well, the commissions in real estate may get unreasonable if you're talking about $20 million houses. It seems a little ridiculous to pay a 5 percent commission on a $20 million transaction.

But do any of us really care if the kind of people who pay $20 million for a house have a slightly higher commission? (Laughter)

The ordinary commission is pretty well-earned.

WARREN BUFFETT: Yeah. We have a number of brokerage firms. So the highest has their average transaction — in one section of the country — would be close to $600,000 a unit. But the — in terms of the sales price of the house. But the — in most of our real estate operations — the average price is more like $250,000 or something in that area. And you can show a lot of houses to make one $250,000 sale.

And of course, you split — the listing company and the selling company are usually two different companies. So it's — it does not strike me as excessive.

And incidentally, it doesn't strike the people in the industry that way either. It has not been particularly susceptible to online-type substitution or something of the sort. The real estate agent earns their commission in most cases.

But Charlie's had more experience with $20 million houses. So he will comment on that area. (Laughter)

32. Some Kraft Heinz products "enjoy fairly healthy" growth

WARREN BUFFETT: OK, we'll have one more question before we break. Jonathan?

JONATHAN BRANDT: Given the changes in consumer tastes in the food business, and Kraft Heinz's already high margin structure, do you think the brands they own today, plus new product introductions, can together maintain or increase the current level of profits over the next ten years without the benefit of acquisitions? Is there anything in their portfolio besides ketchup that is enjoying growing demand?

WARREN BUFFETT: Well, in effect, you're asking me whether Kraft Heinz is a good buy. And we don't — (laughs) — we don't want to give information on marketable securities in that manner.

But — yeah, there are a number of items besides ketchup that enjoy growing demand. And some vary quite a bit by geography. There's enormous differences in the penetration of various products in the portfolio.

Consumer packaged goods are still a terrific business in terms of return on invested assets. And you know — but the population, worldwide, grows fairly smally and at — a fairly minor rate. And — people are going to eat about the same amount. And there is some more willingness to experiment, you know, or go for organic products of the sort.

It's a very good business. And there are new products coming out constantly. It's not one where you're going to get terrific organic growth, but it never has been. And — you know, I like the business and we own 26 or so percent of it.

But there are a number of items within Kraft Heinz that enjoy pretty — fairly — healthy growth. And I think you'd find that at most food companies. And I think you'd find very good returns on invested — on tangible net assets — at those businesses.

Afternoon Session - 2018 Meeting

Warren Buffett explains why he increased Berkshire's stake in Apple by 45 percent and praises the company's big stock buyback. He also predicts bitcoin and other cryptocurrencies will have a "bad ending," expresses surprise over the rate of decline for newspapers, explains why Berkshire won't be buying Microsoft stock, and differs with Charlie Munger on investing in China.

SEE DETAILS ON THIS MEETING

SAT, MAY 5 2018 • 1:00 PM EDT

Key Chapters —

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Afternoon Session - 2018 Meeting

33. Shareholder proposal on sustainability reports

BACK TO TOP

1. Thanks to meeting organizer Melissa Shapiro

WARREN BUFFETT: OK. Last year, for several years, we had a wonderful woman who carried this meeting off without a hitch, Carrie Sova. And she just had her third child here about a few weeks ago, and decided that — she decided right after the last meeting that that was going to be her full-time occupation.

And this year, again, we've had everything carried off without me having to do anything, without a hitch.

And I would just like to have Melissa Shapiro stand up. And we'll get a spotlight on her. (Applause)

I can't believe it, how she does it. It's just been — it's remarkable. I mean, we — I just tell her the date and then that's all the help I am — (laughs) — and it goes on from there. So, Melissa, thank you.

OK, I think we next go to station ten, and we will continue until 3:30. Then we'll take a 15-minute break, and at 3:45 we'll convene the actual annual meeting.

2. Why Berkshire won't be buying Microsoft stock

WARREN BUFFETT: Station 10?

AUDIENCE MEMBER: Hi, I'm Theresa Lukasinski (PH). I'm from Omaha, Nebraska. And I have a question about Microsoft.

You have gotten into the tech world with buying Apple. You have Mr. [Bill] Gates there. I'm just wondering why you've never bought Microsoft.

WARREN BUFFETT: Well — (laughter) — in the earlier years, it's very clear it's — the answer's stupidity. But the — (Laughter)

Since Bill has — particularly since Bill has joined the board, but even earlier than that because of our friendship, it would be — it just would be a mistake for Berkshire to buy Microsoft.

Because if something happened a week later, a month later, in terms of them having better earnings than expected, or making an acquisition — anything — both Bill and I would — incorrectly, but — would be a target of suggestions and accusations, perhaps even, that somehow he had told me something or vice versa.

I stay away from — I try to stay away from a few things just totally because the inference would be drawn that we might have talked — that I might have talked to somebody about something.

So I've told the fellows, Ted [Weschler] and Todd [Combs] for example, that there are just a few things that are off the list because there would be a lot of people who wouldn't believe us if something good immediately happened after we bought it.

And of course, we — to buy a lot of stock, it can take six months to buy it or something of the sort. We just don't need it.

But both that and my stupidity have cost us a lot of money. (Laughs)

It's a very — it's a good question, and I think the answer makes sense.

Charlie?

CHARLIE MUNGER: Well, it's part of theology that a late conversion is better than never — (laughter) — and you've greatly improved yourself. (Laughter)

3. "Through it all … America really, really moves ahead"

WARREN BUFFETT: Becky. (Laughs)

BECKY QUICK: All right, this question comes from Dave Shane (PH). He says, "Warren, you are a big believer in the U.S. political system, the financial system, and in every American.

"You've said that regardless of who is president, the economy and the U.S. consumer will continue to prosper over the long run. All that said, do you believe that people in this country are more divided today than 50 years ago?

"Or is it just social media, and media in general, that blows this divide out of proportion? And if you do believe the divide has grown, what words of wisdom do you have to possibly help remedy it?"

WARREN BUFFETT: Yeah, I would say this. Multiple times in my life, people have felt the country was more divided than ever.

And I’ve gone through periods where people I knew and admired thought that, because the other party was in power, that there never would be another election. That the Constitution would —

I’ve heard everything. Now, the interesting thing is this paper from 1942. Since then, there have been 14 American presidents, just since my young venture into the stock market at 11, I’ve lived under 14 of the 44 presidents the United States has had.

Now, they call Trump 45, but they count Grover Cleveland twice, so there’s really only been 44 presidents of the United States. And 14 of the 44 have been during this period when that $10,000 became 51 million.

Seven have been Republicans, seven have been Democrats. One has been assassinated, one has resigned under pressure.

It works, you know. It — if you’d told me at the start, you know, that you’d have a Cuban Missile Crisis, and you’ve have nuclear weapons, and you’d have a panic in 200[8] — a financial panic — and you’d have many recessions, and you’d have war in the streets in the late ’60s from a divided country, you’d say, “Why the hell are you buying stocks?”

And through it all, you know, America — in fits and starts — but America really, really moves ahead.

And we are always — we survived the Civil War. I mean, it — I hate to think of having to do it that way. But this country, in only less than three of my lifetimes —

If you go back three of my lifetimes, you go back 263 years, I guess, and Thomas Jefferson is 12 years old. And that’s just three — and there was nothing here.

You know, you’ve flown in from all over to Omaha today, and you flew over a country with more than 75 million owner-occupied homes, and 260 million vehicles, and great universities, and medical systems, and everything. And it’s all a net gain in less than three of my lifetimes.

So — and we've had these events since I started buying my first stock. This country really, really works. And it always will have lots of disagreements, and after every election you'll have people feeling the world is coming to an end and, you know, "How could this happen?"

And I remember my future father-in-law in 1952, he wanted to have a talk with me before his daughter and I got married. So kind of reluctantly I sat down with him, and he said, "Warren," he said, "there's just one thing I want to tell you." He said, "You're going to fail."

He said — (laughter) — you know, "The Democrats are going to get in," you know, "they're going to take over the country. And you're going to fail, but don't feel responsible for it because it's not your fault."

And he wanted to absolve me from this feeling that, while his daughter was starving to death, it was my fault. And — (laughter) — I kept buying stocks and doing a little bit better all the time. And, but —

And if the Republicans were in, it was OK, and it was because of them that I was doing well. And if they were out, forget it, it was all going to disappear and stuff.

I mean, I've seen a lot of American public opinion over the years. I've seen a lot of media commentary. I've seen the headlines. And when you get all through with it, this country has six times the per capita GDP growth — the GDP per capita — that it had when I was born.

One person's lifetime, six-for-one change. Everybody in this room, essentially, is living better in multiple ways, than John D. Rockefeller Sr. was, who was the richest person, you know, in the world at that — during my early years. And we're all living better than he could live.

So this is a remarkable, remarkable country, and we found something — (applause) — very special.

CHARLIE MUNGER: (Inaudible)

WARREN BUFFETT: I would love to be a baby being born in the United States today. Charlie. OK, Charlie, you give the other side of this.

CHARLIE MUNGER: Well — (laughter) — there's a tendency to think that our present politicians are much worse than any we had in the past. But we tend to forget how awful our politicians were in the past. I can — (Laughter)

I can remember a prominent senator [Roman Hruska] arguing with an absolute earnestness that mediocre people ought to have more representation on the United States Supreme Court.

WARREN BUFFETT: Yeah. He came from Nebraska, incidentally.

CHARLIE MUNGER: He did. He came from Nebraska. (Laughter) So we're not quite as bad as that yet.

WARREN BUFFETT: Yeah. He succeeded my dad in the House of Representatives.

4. "We'll have a somewhat larger operation at Gen Re"

WARREN BUFFETT: OK. Gary.

GARY RANSOM: Yes, on reinsurance. I know we've talked in the past about reinsurance not really being as attractive an industry in, say, the next ten years as the last ten. But I don't think we've talked specifically about General Re.

And I looked this morning at the 10-Q and I see General Re has grown nicely. I know there's been some changes in the management.

And I wondered if you could just give us a sense of what's going on at the company to bring about some of that growth and what looks like improvement.

WARREN BUFFETT: Yeah. Well, the reinsurance business — I don't think I'd say that it's tougher than it was ten years ago. But you go to 40 or 50 years ago, it was not brutally competitive, I'll put it that way.

And at Gen Re — Tad Montross, who did a fantastic job for us at Gen Re, retired. And we have under Ajit [Jain] — and then Kara [Raiguel] in addition — but under Ajit, the focus of the place has changed somewhat.

And it probably is more growth oriented than before. But I can assure you that anything associated with Ajit is — also has underwriting discipline attached to it.

But, I — there has, as you've correctly noticed, there's been some pick-up. And I think you actually will see the property-casualty reinsurance business grow a fair amount.

And the life business — reinsurance business — and this is really the only place we do much in life — but that has grown very substantially ever since we took it over, particularly internationally. And so that part, I like.

And we will have a somewhat — I think we'll have a somewhat larger operation at Gen Re.

But we have various methods, as you know, of being in reinsurance. We do these huge bulk deals. That's why our net revenues are down this year. We did that $10 billion deal with AIG, which was the biggest deal in history, last year. And we don't have a repeat of it this year.

We will be in the reinsurance business five years from now, 10 years from now, 20 years from now, and 50 years from now, in my view. And we will have some unusual advantages that stem both from our capital position, our attitude toward the business, and the talent that we have.

We have an — we have a way better than average insurance business, generally. We have some real gems that nobody really knows much about.

And we have a very, very good reinsurance business that will be subject to more ups and downs than something like GEICO will be, which just moves ahead every year. But it will be an important part of Berkshire.

Charlie?

CHARLIE MUNGER: Yeah. I would argue the part that any idiot financier can easily get into has gotten way tougher. And why wouldn't it?

WARREN BUFFETT: Charlie is my substitute for my father-in-law that was — (Laughter)

5. “I can’t reduce that to a formula for you”

WARREN BUFFETT: OK, Station 11.

AUDIENCE MEMBER: Hey, Warren. Charlie. Thank you again for having us and having me. I just can’t thank you guys enough and appreciate you guys enough for the body of work that you guys have delivered to us and the exemplar example that you guys have set with your principles. Thank you. (Applause)

Charlie, you’ve mentioned that, if given the chance — or the same chance with a smaller capital base — you would still look for mispriced stock opportunities.

CHARLIE MUNGER: Of course.

AUDIENCE MEMBER: And that would be determined through, obviously, what we’ve called the intrinsic value of the organization — or the company in question — an aggregate of the discounted future cash flows.

Would you work the arithmetic using a fictional data set to illustrate the mathematical principia to determine an intrinsic value?

And I hope you include the comprehensive mental model of the key metrics considered, and quantitative assessments of the management, and any assumptions of its industry to determine the durability of its earning power.

And, Warren, same to that effect. Would you also demonstrate or illustrate an arithmetic problem set using, with a significant capital base, and provide the object lessons on how those have changed from a small to a large capital base?

CHARLIE MUNGER: Well, I can’t give you a formulaic approach because I don’t use one. (Laughter)

And I just mix all — (laughter) — I just mix all the factors and if the gap between value and price is not attractive, I go on to something else.

And sometimes it's just quantitative. For instance, when Costco was selling at about 12 or 13 times earnings, I thought that was a ridiculously low value, just because the competitive strength of the business was so great and it was so likely to keep doing better and better.

Well, I can't reduce that to a formula for you. I liked the cheap real estate. I liked the competitive position. I liked the way the personnel system worked. I liked everything about it.

And I thought, even though it's three times book, or whatever it was then, that it's worth more. But that's not a formula that anybody —

If you want a formula, you should go back to graduate school. (Laughter)

They'll give you lots of formulas that won't work. (Applause)

WARREN BUFFETT: This is the longest we've ever gone in a Berkshire meeting without Charlie saying that — getting to the point where he prefers Costco to Berkshire. (Laughter)

6. Why Apple and thoughts on Apple's buybacks

WARREN BUFFETT: OK, Andrew?

ANDREW ROSS SORKIN: We got a handful of questions relating to Apple. This is a bit of a mash-up of a couple of them.

Warren, you have bought in and sold out of IBM. You have praised [Amazon CEO] Jeff Bezos but never bought Amazon. And you have doubled down on Apple. Can you tell us what it is about Apple?

And given your sometimes critical views on buybacks, do you think Apple would do better spending a hundred billion dollars on buybacks, or buying other productive businesses the way you have generally preferred? A hundred billion dollars is a lot of money.

WARREN BUFFETT: I used to think so. (Laughter) The —

Apple has a incredible consumer product which you understand a lot better than I do. Whether they should buy in their shares — they shouldn't buy in their shares at all, unless they think that they're selling for less than they're worth.

And if they are selling for less then they're worth, and they have the money, and they don't see an acquisition that's even more attractive, they should buy in their shares. And I think that that's very —

Because I think it's extremely hard to find acquisitions that would be accretive to Apple that would be in the 50 or 100 billion, or $200 billion range. They do a lot of small acquisitions.

And, you know, I'm delighted to see them repurchasing shares. We own — let's say we own 250 million or so shares. They have, I think, 4 billion, 923 million or something like that. And mentally, you can say we own 5 percent of it.

But I figure with, you know, with the passage of a little time we may own 6 or 7 percent simply because they repurchase shares. And it —

I find that if you've got an extraordinary product, and ecosystem, and there's lots to be done, I love the idea of having our 5 percent, or whatever it may be, grow to 6 or 7 percent without us laying out a dime. I mean, it's worked for us in many other situations.

But you have to have some very, very, very special product, and — which has an enormous wide — enormously widespread ecosystem, and the product's extremely sticky, and all of that sort of thing.

And they're not going to find 50 or a hundred billion dollar acquisitions that they can make at remotely a sensible price that really become additive to that.

And they may find it, who knows? But there certainly, as I look around the horizon, I don't see anything that would make a lot of sense for them in terms of what they'd have to pay and what they would get.

Whereas I do see a business that they know everything about, and where they may or may not be able to buy it at an attractive price when they repurchase their shares. That remains to be seen.

Incidentally, that's one thing that I always enjoy. People say, "Well, you're talking your book," or something if you talk —

From our standpoint, we would love to see Apple go down in price. They're going to — well, just put it this way. If Andrew and Charlie and I were partners in a business that was worth $3 million so each of us had a million dollar interest in it, if Andrew offered to sell out his one-third interest at 800,000 and we had the money around, we'd jump at the chance to buy him out. I mean, it's so simple.

But people get all lost — and if he'd wanted a million-two for it, we wouldn't pay it to him. (Laughs)

It's very simple math, but it gets lost in all these discussions. And of course, like I say, [Apple CEO] Tim Cook could do simple math. And he could probably do very complicated math, too. So, we very much approve of them repurchasing shares.

Charlie?

CHARLIE MUNGER: I think, generally speaking in America, when companies go out hell-bent to buy other companies, they do — they're worth less after the transaction is made than they were before.

So I don't think you have a general way to wealth for American corporations to go out and buy other corporations. Averaged out, it's a way down, not up.

And I think that a great many places have nothing better to do than to buy in their own stock, and nothing as advantageous to do as they can — as buying in their own stock.

So, I think we know pretty damn well what's going to happen to Apple. They'd be very lucky to — if there was something available at a low price that they could buy. It's —

I don't think the world's that easy. I think that the reason these companies are buying their stock is that they're smart enough to know that it's better for them than anything else.

WARREN BUFFETT: And that does not mean we approve of every buyback, at all, though. I mean, we've seen —

CHARLIE MUNGER: No, no, no. I think some people just buy it to keep the stock up. And that, of course, is insane. And immoral. But apart from that, it's fine. (Laughter)

7. "I like very much our holdings of American Express"

WARREN BUFFETT: OK, Gregg?

GREGG WARREN: Warren, if we look at the performance of your equity investment portfolio the last three to five years, some of the strongest performances come from Visa and Mastercard, which put up returns that are three to four times greater than American Express.

Unfortunately, your holdings of the two names, which we assume were held by Todd [Combs] or Ted [Wechsler], have accounted for less than one percent of stock holdings on a combined basis the past five years, while American Express has tended to be a top-five holding, accounting for 10 percent of the portfolio, on average, and closer to 8 percent of late.

Given that all three firms benefit from powerful network effects along with valuable brands, were there any particular reasons Berkshire did not ramp up its stakes in Visa and Mastercard to more meaningful levels, especially during those years when American Express was struggling?

After all, you've shown a willingness to own several stocks from the same industry, holding shares in several competing banks, and buying stakes in all four domestic airlines in fairly equal amounts when you picked them up in late 2016.

WARREN BUFFETT: Yeah. When Ted and Todd, or either one of them — I won't get into which specifically — which one of them specifically — bought, or for that matter they could both have bought — Visa and Master Charge (Mastercard) — they were significant portions of their portfolio.

And there was no embargo or anything on them owning those stocks because we had a big investment in American Express. And I could have bought them as well. And, looking back, I should have.

On the other hand, I think American Express has done a fabulous job, and now we own 17 and a large fraction percent of a company that not that long ago we may have owned 12 percent. We've done it without spending a dime and without — you know, it's a company that has really done a fantastic job in a very competitive field where lots of people would love to take their customers away from them. But they have more customers than ever, and they're spending more money than ever. The customers are.

And the international growth has accelerated. The small business penetration is terrific. It's really quite a business. And, you know, we love the fact we own it.

Like I say, it didn't preclude me from, in any way, from buying Master Charge (Mastercard) or Visa. And if I had been as smart as Ted or Todd, I would have. (Laughs)

Charlie?

CHARLIE MUNGER: Well, we would have been a little — a lot better with all of our stock picking if we could do it in retrospect.

But — (laughter) — at the time, we have a big position in American Express, and there is one tiny cloud on the horizon of the payments processors and that is the system of WeChat in China.

And so it isn't as though there isn't a little cloud somewhere off in the — and I don't have the faintest idea how important that cloud is, and I don't think Warren does either.

WARREN BUFFETT: No. No. Payments are a huge deal worldwide. And you've got all kinds of smart people working at various ways to change the payment arrangements. And —

CHARLIE MUNGER: To destroy what we have now.

WARREN BUFFETT: Sure, sure. And you've got some very smart people that, you know, I am — the — but there — building a company.

And American Express made a decision a few years ago not to bid as low as somebody else did to retain the Costco business. And I think — Charlie and I disagree on this — but I think it was a smart decision.

He doesn't think it was a smart decision. But one of us will be right. And — (laughter) — and one of us will remind you that they were right. (Laughter)

The — but if you look at American Express, it is — it's a remarkable company. I mean, you know, they came after them with Sapphire last year. People want that business. And payments are changing.

And you can see in different countries different ways things are going on in that. And there are a lot of people that will play the game of gaming the system, and switch from one to another based on the rewards on this card or that, and all of that sort of thing.

But there also is a — I think there's a very substantial group for which American Express does something very special, and they keep capitalizing on that premier position with that group.

And they're doing it successfully around the country. And you'll see in the first quarter — you've seen in the first quarter — you know, where in Britain, in Mexico, in Japan, you're seeing gains of 15 percent or better in local currencies.

And the base is not tiny, but it's not huge, so there's a lot of room left to go in that. And the small business penetration is good. The loan portfolio has behaved sensationally compared to, really, just about anybody.

So, I like very much our holdings of American Express.

The first half, because of the accounting changes, they had to suspend their repurchase program for six months. But I — they've announced that they expect to renew it.

And someday we'll even, you know, we'll own a greater percentage of American Express and it will be a bigger company, in my opinion. And I think we'll do very well.

But as Charlie says, nobody knows how payments is — for sure — comes out. And nobody knows how autos for sure come out. And there — that is true of a great many businesses we're in, and we've faced it before.

We used to buy things that were certain failures, like textiles and second-rate department stores and trading stamps in California. Now we just face things that face real difficulty. So we're actually moving up the ladder. (Laughter)

8. Capital-intensive businesses are "good enough"

WARREN BUFFETT: OK, Station 1.

AUDIENCE MEMBER: Mr. Buffett, my name is Daphne Collier Starr (PH). I'm eight years old and live in New York City. I've been a shareholder for two years and this is my second annual shareholders meeting.

Berkshire Hathaway's best investments on which the company built its reputation have been in very capital-efficient businesses — (laughter) — such as Coke, See's Candy, American Express, and GEICO.

But recently, Berkshire has made really big investments in a few businesses that require huge capital investments to maintain and that offer only a regulated low rate of return such as — (laughter) — Burlington Northern Railroad.

My question to you, Mr. Buffett, is could you please explain why Berkshire's largest recent investments have been departed from your old capital-efficient philosophy?

And why specifically have you invested Burlington Northern instead of buying a capital-efficient company like American Express? (Applause)

WARREN BUFFETT: You're killing me, Daphne. (Laughter) Yeah.

CHARLIE MUNGER: I'm certainly glad she's not nine years old.

WARREN BUFEFTT: Yeah. (Laughter)

I'm just sitting here thinking which of the six panelists we're going to bump next year and put you in. (Laughter)

Well, I thought I was doing well when I bought that City Service at 11. (Laughs)

The answer is that we have — we'd love — we always prefer the businesses that earn terrific returns on capital, like a See's Candy when we bought it or a good many of the businesses.

And, we've — and, you know, American Express, you know, earns a terrific return on equity, and has for a very long time.

The fact that we buy a Burlington — BNSF, Burlington Northern — means that, essentially, we can't get more money deployed in capital-light businesses at prices that make sense to us. And so we have gone into more capital-intensive businesses that are good businesses.

But wouldn't it be wonderful if we could run the railroad without trains, and track, and tunnels, and bridges, and a few things?

We get a decent return on the capital-intensive businesses. We bought most of them at very decent prices, and they've been run very well since we bought them.

We still love a business that takes very little capital and earns high returns, and continues to grow, and requires very little incremental capital.

We can't deploy as much money as we have in doing that. And so as the second-best choice, still a good choice, the answer is yes. It's not as good as the best choice.

Charlie?

CHARLIE MUNGER: Yes, I like the aspiration of that young lady. She basically wants her royalty on the other fellow's sales. And of course that's a very good model, and if everybody could do that, why, nobody would do anything else.

The reason we're satisfied with our utility returns and our railroad returns is they're quite satisfactory. And we — and the — quite satisfactory. I wish we had two more just like them. Don't you, Warren?

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: So —

WARREN BUFFETT: Definitely.

CHARLIE MUNGER: So the answer is they're good enough, and you're asking us to get perfection if you would want us to have all our money in Coke at, say five percent of what it's now selling for.

WARREN BUFFETT: Yeah. And a business like Apple really doesn't take much capital.

But — so, you've got to spend a lot of money to buy businesses like that. Very few are for sale.

And the answer is we have not foregone any opportunity to buy businesses that earn high returns — very high returns — on equity capital, when we could buy them at a sensible price, to buy these other businesses.

So they haven't shoved anything else off the table. But you are — you definitely have a job in our capital allocation department. (Laughter)

9. Buffett "surprised" rate of decline for newspapers hasn't moderated

WARREN BUFFETT: OK, Carol.

CAROL LOOMIS: This question is from Max Taylor (PH) of Chicago, and it concerns the newspapers that Berkshire owns.

"In your 2012 letter to shareholders, Mr. Buffett, you had a section devoted to Berkshire's buying 28 newspapers during the year just past. Since then, you have not come back to the newspaper subject.

"But this year, at the end of the annual report, you published a list of the newspapers Berkshire owns today, along with their circulation. I compared that list with the one you published five years ago at the end of 2012.

"As you no doubt know better than anyone, the circulation of the 26 newspapers that Berkshire still owns, of the 28 originally bought, fell sharply. In many cases, by big amounts like 30 percent to almost 50 percent.

"I know that five years ago, you acknowledged the risk in owning newspapers, but you still said, 'Charlie and I believe that papers delivering comprehensive and reliable information to tightly-bound communities, and having a sensible internet strategy, will remain viable for a long time.'

"Skip to today, and imagine that you are writing about Berkshire's experience with newspapers. What would you be saying?"

WARREN BUFFETT: Yeah. I would say that — I forget the modifying word on internet strategy — but I think I said "sensible."

The problem has been — about 1,300 daily newspapers in the United States — there were 1,700 not that long ago — is that no one except The Wall Street Journal, The New York Times, and now probably The Washington Post has come up with a digital product that, really in any really significant way, will replace the revenue that is being lost as print newspapers lose both circulation and advertising.

And if you look at the communities in which we operate, or the communities in which, you name it — other newspapers operate, the community could be prospering. We're in a prosperous economy presently. And all are losing daily circulation, they're losing Sunday circulation, they're losing street — all street sales, they're losing home-delivered.

And it is — I've been surprised that the rate of decline has not moderated in the last five years.

We bought all the papers at reasonable prices, so it is not of great economic consequence to Berkshire. But I would like to see daily newspapers, actually, you know, be economically viable, because of the importance to society.

But I would say that the trends which — I put those circulation figures in there because I think the shareholder's entitled to look, year-to-year, at what is happening. And it's not only —

It's happening to 1,300 newspapers throughout the United States. And it happens in small towns, where you would think that the alternative sources of information would not be that good. It happens every place.

And The Journal, The Times, and probably The Post, have a viable economic model in the digital world, and probably will continue to shrink — I'm almost certain will continue to shrink — in the print world.

But the digital world will be big enough that — and they'll be successful enough — so that they have, in my view, a sustainable business model.

But it is very difficult to see, with the lack of success, in terms of important dollars arising from digital, it's difficult to see how the print product survives over time. And that's — I'm afraid that's true of 1,300 papers in this country.

And we'll keep looking to see if there is a way to do it. But you'd have to look at our experience, and look at the experience of everyone else's.

McClatchy newspapers came out the other day, you know, and I think that newspaper — which is very good — fine cities that they operate in — and advertising revenue is down something like 17 or 18 percent, and circulation. But it isn't just them, it's everybody in the business. And I wish I had a better answer for you, but I don't.

I would say that the economic significance to Berkshire is almost negligible, but the significance to society, I think, actually is enormous.

And, you know, I hope that we find something. I hope others find something because we'll copy it. But so far, we have not succeeded in that.

Charlie?

CHARLIE MUNGER: Well, the decline was faster than we thought it was going to be. So it was not our finest bit of economic prediction. And I think it's even worse.

I think, to the extent we miscalculated, we may have done it because we both love newspapers and are — and have considered them so important in our country.

These little local newspaper monopolies tended to be owned by people who behaved well and tended to control the politicians. And we're going to miss these newspapers if they disappear. We're going to miss them terribly. And —

WARREN BUFFETT: I think you may continue —

CHARLIE MUNGER: — I hope to God it doesn't happen, but the figures are not good, Warren.

WARREN BUFFETT: No. No, they aren't. And it isn't just — you know, it isn't some town that has a particular problem with unemployment or anything of the sort. And it isn't due to general economic conditions.

It's due to the fact that a newspaper, if you wanted to know the baseball results from the present day, and the box scores, and everything else, they told you the following morning and it was still news to you.

And the financial material that I read from there, and in terms of looking at the stock prices and everything, they were news to you the following morning. And the —

What was developing in the Pacific in terms of the war was news to you when you read about it in the morning in The New York Times. And it's — news is what you don't know that you want to know. And the —

And those Help Wanted ads, you know, segregated as they may have been, still were the place to go to look to find a job. And you can go up and down the line and one element after another where the daily print newspaper was primary, they're no longer primary.

And the business has changed in a very material way, and we haven't been able to figure out any solutions to that, and we'll keep trying.

Like I say, it's not of economic consequence, but I think it is societal consequence. And we haven't been able to solve it.

10. TTI has "improved dramatically in the past year"

WARREN BUFFETT: OK, Jonathan?

JONATHAN BRANDT: TTI has been a nice growth story since Berkshire acquired it 11 years ago, more than doubling its pre-tax earnings to about $400 million due to fine organic growth and at least two successful bolt-on acquisitions. Business momentum appeared to accelerate in the first quarter.

Can you please talk about the competitive landscape in the electronic components distribution industry and what TTI's advantages are? Is it just a great industry to be in or is TTI's business model and/or management team special?

WARREN BUFFETT: Well —

JONATHAN BRANDT: Do you expect it to continue to be one of Berkshire's faster growing non-insurance subsidiaries?

WARREN BUFFETT: TTI is run by a fellow named Paul Andrews who's done an absolutely sensational job with us. He's a wonderful man. He's a wonderful manager.

And in the last — he's quadrupled the business, basically, but in the last year and accelerating right to this point.

They distribute little electronic components. They actually — their average — they're a many-billion dollar business — and their average item is less than a nickel that they sell. So it's kind of like being in the jellybean business or something like that. Except these things go into all kinds of fancy machines that I don't understand.

And we have a worldwide operation based in the Dallas, Fort Worth area. And built by one man who left a division of General Dynamics 45 or 50 years ago. And step-by-step built up this business — like we just bought within the last two months, we bought an operation in South Korea that will be another substantial addition. We do business worldwide. And electronic components that have absolutely taken off in the last year.

And they use something called, you know, well, it's essentially a measure of backlog. And book-to-build is the ratio they call it. But it's just kind of a special term.

The — but, it's grown — I mean, it's just improved dramatically in the last year. And it continues month after month. So something is going on out there because nobody buys these things to store them in their basement or anything of the sort. I mean, these get used, these electronic components.

Some of them are on allocation. We have a great relationship with suppliers. We have a very good relationship with our customers because we carry more inventory than most of our competitors. So particularly when the business is tight we can deliver and do a very first-class job doing it.

So I give credit to Paul. He increased his physical facility, started on that a few years ago. And it's a godsend that he did it because with the business going through there now we wouldn't have been able to handle it.

But it's a competitive business. I mean, if you look at Arrow Electronics, you know, on the New York Stock Exchange — we've got competitors. I think Paul is doing a better job, by a considerable margin, than they are. And I'm delighted as a part of the Berkshire family.

There will be times when that business slows down because their customers, you know, will have their own cycles. And what it does will go down. But over time that business is going to grow.

Charlie?

CHARLIE MUNGER: Yeah, it's a wonderful business because it's so difficult to do that competitors don't want try it. When I lived in Omaha there was a man who lived in great prosperity and almost no work. And his business was gathering up and rendering dead horses. And he never had any competitors. (Laughter)

He used to come up to the Omaha Club and start drinking about 11 in the morning. It was not a difficult business. But nobody ever crowded him with new competition.

And very few people want to distribute zillions of electronic parts that are worth a nickel each. It's very complicated.

And of course that business is terribly good at it. And it keeps getting more and more of the same. So you're right. It's a huge growth business which is sort of the electronic equivalent of gathering up and rendering dead horses. (Laughter)

WARREN BUFFETT: Imagine keeping track of close to a million different items, you know, with very small values attached to them and getting them out to your customer fast because they want them fast, all over the world. You know, and those things are not easy to manage. I mean, yeah.

CHARLIE MUNGER: And staying in stock on so many items. It's very complicated. And that business is very good at it.

WARREN BUFFETT: Yeah, we're luck —

CHARLIE MUNGER: And of course it'll grow. The horses went away but these parts aren't going to go away. (Laughter)

WARREN BUFFETT: Charlie made a profession of studying businesses where the owners could sit around and drink all day and have — (laughter) — he thought that was where we ought to be competing but — or buying.

CHARLIE MUNGER: My theory, Warren, is if it can't stand a little mismanagement, it's no business. (Laughter)

WARREN BUFFETT: Yeah and we're testing that sometimes. (Laughter)

11. Phillips 66 and staying below 10 percent ownership

WARREN BUFFETT: OK, Station 2.

AUDIENCE MEMBER: Hi, Ben Sherber (PH), Topeka, Kansas. Just want to say, Warren and Charlie, thank you again for hosting us all. This is a great event.

WARREN BUFFETT: Thank you.

AUDIENCE MEMBER: My question is about the recent decision to sell shares back of Phillips 66. Not to put you on the hot seat. But right after that, share prices jumped up about $22 a share.

You mentioned at the time that there's some regulatory requirements if you own over 10 percent of a company. Could you talk about the factors that go into how you decide whether to retain more than that or get under that threshold? And then what are your thoughts long-term on Phillips 66, like, their business mid-stream refining?

WARREN BUFFETT: Yeah, well, it was the City Service preferred of last year. (Laughter)

We sold the stock at around 93 or '4. And it's probably 115 now. But we own just under 10 percent of the company. And the more Ted [Weschler] and Todd [Combs] and I think about various problems connected with regulatory problems and trading problems and so on, overwhelmingly we will stick below 10 percent on marketable security holdings.

We've done it with the airlines. Now that does not mean we're going to reduce our holdings in American Express or anything of the sort.

But — and Greg Garland has done a great job at Phillips 66. We've had very good relations with the company. They're very — he's a very, very, very experienced and sensible manager.

But I did decide that I wanted to be below 10 percent in that holding. And we, like I say, we'll stay just slightly under 10 percent of Wells Fargo.

We've actually sold a few shares just to stay below 10 percent in the case, I think, of both American Airlines and United Continental.

Unless there's something unusual we're going to stay under ten. But we have nine and a significant fraction percent of Phillips. And I think they've been good at operations. I think they've been good at capital allocation.

We traded them a business — we traded them stock for a business some years ago, which has been a very nice business that we've retained in operation.

So we've got a lot of money still in Phillips. And I wish I'd made the deal at a higher price. But we made money on what we sold and we accomplished an objective.

Charlie?

CHARLIE MUNGER: Well, we like the subsidiary [Phillips Specialty Products] we traded the stock for. (Laughter)

WARREN BUFFETT: I missed that —

CHARLIE MUNGER: We traded the stock for a subsidiary.

WARREN BUFFETT: Yeah, well, yeah.

CHARLIE MUNGER: We like the subsidiary.

WARREN BUFFETT: Oh yeah. Well, it improved —

CHARLIE MUNGER: It isn't like the stock went away for nothing.

WARREN BUFFETT: Yeah. Yeah, actually we've done pretty well with Phillips.

12. Cryptocurrency craze will "come to a bad ending"

WARREN BUFFETT: Becky?

BECKY QUICK: This question comes from Vlad Koptev (PH) in Ukraine. He says, "Capitalization of cryptocurrency has approached that of Berkshire and Apple last year. And clearly the idea behind crypto will affect conventional banking groups where Berkshire is a shareholder. You always say you didn't go into too much detail to obtain an understanding on cryptocurrencies. So what factors caused you to say that it's a bubble?"

WARREN BUFFETT: Well, generally non-productive assets remain not only — if you'd bought gold at the time of Christ and you figured the compound rate on it, you know, it may be a couple tenths of 1 percent.

It essentially is not going to deliver anything other than supposed scarcity, you know, because they'll only — you can only mine so many. But so what? I mean, what does it produce itself?

You know, the check is a wonderful idea. Just imagine how the world would be without being able to write checks or have wire transfer of funds. But it doesn't make the check intrinsically itself worth a lot of money.

And if you said you can't use something called "check" with a little piece of paper you'd do something else to transfer money.

I think that anytime you buy a nonproductive asset you are counting on somebody else later on to buy a nonproductive asset because they think they can sell it to somebody for more money.

And it's been tried with tulips and it's been tried. It's been tried with various things over time. And it does come to a bad ending.

I mean, having — you have a hard time. You can think of raw land. I mean, the Louisiana Purchase was, say, $15 million for 800,000 or so square miles of land. In fact, you're sitting on land that came with the Louisiana Purchase.

And so what'd we pay? We paid 20 bucks a square mile. And, you know, 640 acres in a square mile. And you're down to three cents or something. So that was a pretty good purchase of what was then a nonproductive property. But it'd depend — but it's very hard. You can buy stamps. Bill Gross got, you know, collected a wonderful stamp collection. It sold for more money in the end.

But it's dependent on somebody else wanting to buy, hoping they will sell it for more money and so on.

And in the end you make your money on productive assets. If you buy a farm, you try to estimate what the crops, what amount per acre of soybeans or corn or whatever may be raised, and how much you have to pay the farmer that farms it for you, and what your taxes will be, and various things. And you make a conclusion based on what the asset itself will produce over time. And that's an investment.

When you buy something because you're hoping tomorrow morning you're going to wake up, you know, and the price will be higher, the only reason, you know, you need more people coming into it than are leaving.

And you can get that. And it will feed on itself for a while, and sometimes for a long while, and sometimes to extraordinary numbers. But in the end — but they come to bad endings. And cryptocurrencies will come to bad endings.

And along with the fact that there's nothing being produced in the way of value from the asset that you also have the problem that it draws in a lot of charlatans and that sort of thing who are trying to create various sorts of exchanges or whatever it may be.

You know, it's something where people who are of less than stellar character see an opportunity to clip people who are trying to get rich because their neighbor's getting rich buying this stuff that neither one of them understands. It will come to a bad ending.

Charlie?

CHARLIE MUNGER: Well, I like cryptocurrencies a lot less than you do. (Laughter)

And so to me it's just dementia. And I think the people who are professional traders that go into trading cryptocurrencies, it's just disgusting. It's like somebody else is trading turds and you decide, "I can't be left out." (Laughter and applause)

WARREN BUFFETT: To the extent that this — we are being webcast around the world, I hope some of our stuff doesn't translate very well, actually. (Laughter)

13. Shareholders will get a lot of the corporate tax cut benefit

WARREN BUFFETT: OK, Gary.

GARY RANSOM: Yes, I had a question on the corporate tax rate. And we have a debate in my investment world about where the benefits of that cut fall. And I'd say the consensus is going to the consumer as it gets competed away over time. But perhaps some of it sticks to shareholders.

And my question is, do you think, over the long run, some of the benefits sticks to shareholders? And maybe it's even beyond auto insurance? Maybe it's other businesses you have as well.

WARREN BUFFETT: Well, what people do generally with that is they take what they want to be the answer for them and then they hire — or they just attach themselves to some economist that gives them a more complicated way of saying it's all going to be wonderful because it's happened.

But the answer is that in the case of our regulated public utilities, the benefits are all supposed to go, and will go, to the utility customer, because we're entitled to a return on equity if we perform well. And we're not entitled to get excess returns because our tax rates changed. And similarly, if tax rates would go back up, we would expect to get compensated for that. So in that area — and that was 5 or $6 billion for us.

But in that area, absolutely, it goes to the user, the consumer. And it should.

Then the question is, with the remainder, does it get competed away or not? And the answer is sometimes it does, sometimes it gets competed very quickly and substantially. Sometimes it may be slow. And other times it probably won't.

The one thing to know is that the change in the corporate tax law was good for shareholders, generally, and Berkshire shareholders. I mean — and that's what Congress passed. And the intent had to be that if you were going to cut taxes that shareholders would get a particularly large portion this time. And some of you will agree with that politically and some of you won't agree with it politically. But you'll all benefit equally. (Laughs)

And I think it's human nature if you're getting a break to say it's going to work wonderfully for everybody else. And we'll find out whether it will or not.

It's very, very, very difficult in economics to measure the impact of single variables. You cannot just do one thing in economics. People kind of learn that in physics and talk about butterflies in China and all that sort of thing. But the — every question you get in economics the next, any statement, you should say "and then what?"

And when you get into the "and then whats" you get start favoring people who give an answer to that in political life that happens to usually help you in some way or another, including your pocketbook. And we've see that with this. And it's helped the shareholders at Berkshire Hathaway.

I would say that some will be competed away. Some, by law, will go to the utilities and some will benefit Berkshire shareholders. Charlie?

CHARLIE MUNGER: I have nothing to add.

14. Utilizing multicultural backgrounds to improve international economies, and the benefits of multiculturality

WARREN BUFFETT: OK. Station 3.

AUDIENCE MEMBER: Hi, Mr. Buffett and Mr. Munger. My name's Kevin and I'm from Shenzhen, China, currently studying finance and philosophy at Boston College.

I have a rather broad question. In this more and more globalized world, what do you think our younger generation can do to best leverage our background and experience of both China and U.S. to create values and for the benefit two countries' economy and relationship? And what do you see valuable in a person with a multicultural background? Thank you.

WARREN BUFFETT: Well, I think in answer to the last question, I think it's terrific to have a multicultural background. And I never was any good at languages. But if I were in college today, in either country, I'd be learning the language of the other country, because I think it would be a great advantage over time.

The first part of the question, I'd like to have that stated again to me. I want to make sure I'm answering your specific aspect there on the — I think it's going to be good for your future. But can we have the microphone on up there again?

AUDIENCE MEMBER: So the first part of the question is, like, what do you think our younger generation can do to best leverage our background and experience of both China and U.S.?

WARREN BUFFETT: Well, I'd start with being multilingual, I mean, certainly, in terms of, you know, I mean, obviously you want to be able to express yourself in both. And the better you can understand, obviously, the culture of another society, obviously, that's a benefit.

But I think the market system, modified as it may be, both in China and in the United States, in a way, it really does — there will be an invisible hand, to some extent, that does work to improve the lot of future generations by the fact that both China and the United States, and the rest of the world, is improving. I mean, it is much better, in my view, particularly in a nuclear world. But it's much better to have people prospering throughout the world, partly through their own efforts but partly through their interactions with the rest of the world.

And we've made a lot of progress in that respect particularly since World War II. I mean, it was a terrific idea to have the Marshall Plan, you know, instead of behaving like we did after World War I and getting the result that we got. I think we behaved much more intelligently after World War II.

So I'm bullish on the future of United States. But I'm bullish on the future of China, and to a significant extent, you know, the rest of the world.

People are going to be living better 10, 20, 50 years from now. And I don't think that's something that can be stopped even. Charlie? Absent weapons of mass destruction.

CHARLIE MUNGER: Yeah, well, the multicultural stuff, it wouldn't do you much good to be fluent in both English and Chinese if you were, say, a proctologist in China or a proctologist in Nebraska. (Laughter)

So if you're going to use your multicultural background, you've got to work at some interface between the United States and China.

And you can raise money in the United States and invest it in China like Li Lu does or you can be some kind of an importer or a trade specialist. But you've got to get near that interface to benefit from being bilingual and so on.

WARREN BUFFETT: But you would bet that the interface will be substantially greater.

CHARLIE MUNGER: Huge.

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: Huge.

WARREN BUFFETT: And that's what you want to prepare for.

CHARLIE MUNGER: Yes. And I think that, generally speaking, that we get multicultural you can also be multidisciplinary. But generally I think people make more money if they're very narrowly specialized, like the proctologist. (Laughter)

And it's much harder to make a lot of money for most people if you try to imitate Warren and me.

WARREN BUFFETT: I'm glad I didn't meet him earlier. I mean — (Laughter)

15. Subsidiaries encouraged to offer low-cost 401(k) options

WARREN BUFFETT: OK, Andrew.

ANDREW ROSS SORKIN: OK, this question comes from someone who says, "I am a Berkshire employee and shareholder."

WARREN BUFFETT: Uh huh.

ANDREW ROSS SORKIN: “I read an investigative article from ProPublica and The Washington Post that many of Berkshire’s various units only offer 401(k) plans with high fees that are actively managed rather than the low-cost indexes you have advocated as the best path for savings for retirement.

“The article’s author said he contacted the company and nobody would comment.

“Will you do something to improve our 401(k) offerings to match your investment philosophy? And from an operational perspective, how did this happen, given your strong views on the topic?”

WARREN BUFFETT: Well, I’ve absolutely said what — many, many times through annual reports — and our managers know what I think about the attractiveness of having an index fund option. But they all have different plans, different histories. And they run their businesses.

And who knows, you know, which particular — if you go back to the older businesses, they have defined benefit pension plans, generally. Nobody puts them in anymore. And then the question is, you know, do you transition to something else.

In the end, we overwhelmingly thought our managers make those kind of decisions and others. And my guess is that a very high significant percentage of people who have — who work at a company that has a 401(k) plan will have an index fund option, but they may not, in some cases.

The only thing we — I think we have asked the companies to have a limit on the percentage, I think, that they might put in Berkshire’s stock through the 401(k). We don’t want people to lose jobs who are tied to Berkshire.

We certainly don’t want to be in the position of encouraging to put 100 percent or something of their savings in Berkshire itself. I don’t want to be in that position.

But I don’t think even there we’ve insisted on any company doing that. I think we’ve probably made that, when we’ve been asked about it once or twice, I think we’ve given that suggestion.

But the managers will run the companies. The employees, if they feel — and some of our companies have human relations departments — if they feel that they’d like different options or something like that, you know, they should make those views known to the managers. And in some cases the managers, I think, will pay attention to them and in others they probably won't.

We've got a wide variety of managers that run our businesses. And we're not going to start trying to run them from Omaha.

Charlie?

CHARLIE MUNGER: Well, you're right. That has happened. That business of the high-fee choices, because we've delegated the whole subject to the managers of the subsidiaries. And so no attention at all is being given to the employee choices at headquarters.

And what you're pointing out is that a lot of the employees in the subsidiaries would do better if they indexed instead of choosing what they did choose. My guess is you're absolutely right about that. You know.

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: And if there are any people, managers, in the business today, I hope we'll do a little better at encouraging better choices.

WARREN BUFFETT: Yeah, although we don't want them to interfere too much in —

CHARLIE MUNGER: No.

WARREN BUFFETT: — directing what they, you know, we can take over human relations.

CHARLIE MUNGER: No, it's up to the managers. But we wouldn't object to a little different viewpoint.

WARREN BUFFETT: And we have made it very clear what we think. I mean, some of them don't listen to us. (Laughter)

16. Berkshire's culture will continue because "it works"

WARREN BUFFETT: OK, Gregg.

GREGG WARREN: Warren, you've noted time and again that there is a strong common culture shared across Berkshire subsidiaries built on a commitment to honesty and integrity, a focus on the long-term, and an emphasis on customer care. And it's also critical to find cultures that mesh well with Berkshire's when acquiring operating companies.

In most cases, the managers that are currently running these subsidiaries are the same individuals who are members of the families that originally sold their firms to Berkshire, leaving them with a vested interest in the businesses they are running and a strong connection to the culture they tend to share in common with Berkshire.

It seems to me that the greater challenge is in ensuring that the large publicly-traded firms that have been acquired and account for a meaningful and growing amount of Berkshire's overall value, stay the course. Could you comment on whether or not this is the case and what the greatest challenge is for you and Charlie when it comes to not only maintaining Berkshire's culture but in finding firms that would fit in well with what you've built?

WARREN BUFFETT: Yeah, I think the culture is very, very strong. And I think it gets reinforced — frankly, I think it gets reinforced by the shareholders we have. I mean, we have a different body of shareholders and we look at those shareholders, I think, in a somewhat different way than a good many other companies do.

I mean, I think there are a fair number of public companies that wish they didn't have, you know, public shareholders. We're happy to have public shareholders. And we like having individual shareholders. And we don't favor institutions. And we're not going to, you know, give guidance and talk especially to them on investor calls and all that sort of thing. We want our — we want it to be directly with — we want shareholders who are partners, basically.

And it begins with that. It goes to the directors. We have directors who are not — well, I've been on 19 boards, and I've never seen another board like ours. And I think it's terrific that we've got the people who represent, in many cases, lots of shares themselves. They didn't gets special deals. It's a group of owner-oriented, Berkshire-conscious, business-savvy owners.

And we don't have anybody on the board because they're a leading, you know, educator or whatever it may be. We want people who, basically, think about how to run a business well for themselves and for their partners. And we've got managers who fit into that culture, who have chosen that culture in coming with us.

And sometimes we have the second or the third or fourth generation, say at the Nebraska Furniture Mart, that share that. Is it perfect? No, it's far from perfect. I mean, you don't get everybody thinking the same way. We have people — we have people that are very independently minded running a lot of businesses. And some of them have different political beliefs, they have different — they see through different lenses than we do, to some degree.

But in terms of having a common, strong, positive culture, I don't think there's any big public company that has it any better than Berkshire. And I think that will continue because people opt into it to a great deal. Cultures get passed along. You do things that are consistent with the culture, so you do — what you talk about is what you do.

And you don't find people saying, you know, "We're a wonderful partnership," and then voting themselves, you know, huge options. And then a whole bunch of other people will say options beneath them because they can't look like they're taking it all for themselves, and arranging — I read about some deal where it could pay off with many, many, many billions of dollars, the other day. We won't name names.

But we've got as good a culture as you can get. And I would say, net, it grows stronger. We have a few people all of the time that really don't buy into it entirely. I mean, it is not 100 percent. But it's as close to it.

And I think it gets closer all the time as we go along. And we will keep — we will try to keep behaving in a way that reinforces it and doesn't dilute it. And I think that will not only work for Charlie and me but it will work for our successors very well. It won't be perfect.

Charlie?

CHARLIE MUNGER: Every time I come to one of these meetings and sit in the manager's luncheon, I feel more strongly at the end of the luncheon that the culture and values of Berkshire Hathaway will go on and on for a long time after the present management is gone.

In fact, I think it'll go on after all of the present managers are gone. I think we've started something here that will work well enough that it will last. And one of the reasons it will last is it's not that damned easy to duplicate.

So the one that is present is likely to just keep going and going. Think of how little direct copying of the Berkshire system there's been.

WARREN BUFFETT: But it won't produce the returns it's produced in the past even.

CHARLIE MUNGER: No, I think it's going to last a long time for a very simple reason. It's going to —

WARREN BUFFETT: It works.

CHARLIE MUNGER: — deserve to last a long time.

WARREN BUFFETT: It works.

CHARLIE MUNGER: And it's going to work.

17. Cash needed to support Berkshire insurance operations

WARREN BUFFETT: OK. (Applause) Station 4.

AUDIENCE MEMBER: My name is Christian Marx. I'm a proud shareholder from Cologne, Germany. It is my pleasure to be here.

My question relates to the Berkshire insurance operations. When I look at the quarterly balance sheets of the last two decades, I noticed a pattern that I kindly ask you to discuss.

The sum of cash plus fixed income always hovers around 100 percent of the amount of insurance float. Therefore, my question is, is it fair to say that from the 128 billion of consolidated cash plus fixed income as of March, 116 billion are actually needed to support the insurance operations?

WARREN BUFFETT: No, I appreciate —

CHARLIE MUNGER: The answer is no. Yes.

WARREN BUFFETT: The answer is no. But he deserves an explanation of how this — maybe I haven't looked at it the way he's looked at it.

We would much rather have a number closer to 20 than to have 116. And we do not correlate or, in effect, measure the float and then decide how much to put or leave in cash, in fixed income.

The fact —our float keeps growing. And lately our — which is by design and has been terrific for us — and our cash and cash equivalents have has grown because the competition for acquisitions has become much stronger as — both as money has piled up with the buyers of businesses and because debt has been so cheap and a variety of factors.

But I don't think those are necessarily permanent. In fact, it would be reasonably true they aren't permanent. It's just a question of when they change.

We are not tying, as Charlie said, we're not tying the cash and cash equivalents at all to float. The float is (inaudible).

The float went up $2 billion in the first quarter. And there is no way that that that float can shrink a lot in any short period. It just structurally has been set up in such a way that it will not — it cannot shrink. And actually, I think it'll grow a little bit for a while.

I mean, I've always been amazed by how much it has grown. We've got so much more float than any property-causality company in the world. And it's pretty amazing that it all came from that little building that Jack Ringwalt built and picked the location because it was near the tennis courts. (Laughs)

OK, Carol.

Oh, and Charlie.

CHARLIE MUNGER: There are encouraging recent developments. Some of the cash has gone out recently for securities we vastly prefer over the cash. And we have a lot of cash that could be — remaining — that could be deployed in securities we might like a lot better than Treasury notes. So stay tuned.

WARREN BUFFETT: Yeah, to make it very simple, in the first quarter we earned five and — from operations we earned a little over $5 billion. Now, we only spent about our depreciation. Normally we would spend somewhat more than that. But that's 5-and-a-fraction billion. Two billion came, in net, from float. So that's $7 billion that — basically in the first quarter — that would have been added to our cash if we hadn't done something with it. And instead our cash and equivalents went down, because we, net, invested more in equities by some margin than the seven that came in.

But we do have this position where, even absent a change in float, about 400 million comes into Berkshire every week, which is very comfortable. (Laughs)

And we will — we want to get it so that more than 400 million is going out into productive assets. And we succeeded in doing that in the first quarter. And, net, net we improved our position in the first quarter.

18. "Amazing" earnings in the new "asset-light economy"

WARREN BUFFETT: Carol?

CAROL LOOMIS: In your 1999 article in Fortune magazine, you stated your belief that after-tax corporate profits were unlikely to hold much above 6 percent for any sustained period, due not only to competition but also to public policy.

You stated in the article, "If corporate investors, in aggregate, are going to eat an ever-growing portion of the economic pie, some other group will have to settle for a smaller portion. That would justifiably raise political problems."

Since 2008, after-tax corporate profits have been 8 to 10 percent of GDP. Do you believe that is a permanent shift in the U.S. economy? And of course, we have to think about the latest tax bill. Or will corporate profits revert back to the 4 percent to 6 percent of GDP range that was normal in the 20th century?

WARREN BUFFETT: Well, it's been an interesting development during that period. It goes back a little bit before that period. But you now have the four largest companies, by market value, in the United States — a $30 trillion market — you have four companies that essentially don't need any net tangible assets.

And if you go back many years, I mean, if you looked to the largest companies — Carol used to put out the Fortune 500 list. And you know, it would be AT&T and General Motors, and it was companies that — Exxon Mobil — it was companies that just required lots of capital in order to produce earnings.

So American industry has gotten incredibly more profitable, in aggregate, in the last 20 or 30 years. You look at the return on the S&P 500, the earnings as a percent of net tangible assets, and the rest is just, you know, if you buy a company that has a million dollars' worth of net worth and you pay a billion for it, it still only had the million dollars' of net worth. I mean you just paid more for it. So the basic profitability of the company is huge, even though your investment may be at a significantly higher price.

So that what has happened is that, I think if you look at the earnings on tangible net worth of the S&P 500 and compare it to 20 years ago, it is amazing. And that is really due to the fact that this has become somewhat, you could call it an asset-light economy.

And you know, those four companies that earn 10 percent of the — they comprise close to 10 percent of the market value of the entire publicly-traded corporate America, they don't — and they don't take any money, basically. And that is a changing world. And they will earn even more money with the tax rate going down.

And I don't think people have quite processed all that information in terms of what has gone on in the market.

You don't — you know, [Andrew] Carnegie built a steel mill, and then he paid it off. Or he borrowed a little money, and then he built another steel mill, and all of that sort of thing. But it was enormously capital-intensive.

And one industry after another. AT&T was enormously capital-intensive. And now the money is in the asset-light — I mean, huge money is in the — not only asset-light business — but the negative asset.

You know, IBM even, you know, had — it has no tangible — it has a net — minus tangible net worth. There's nothing wrong with that. It's terrific. But it is not the world we lived in 30 years ago.

And in that sense, I didn't see that coming in 1999 when I wrote whatever I wrote there. It hasn't changed the profitability of the asset-heavy companies particularly. I mean, it isn't like oil.

If you take the five most capital-intensive industries in the '90s, I don't think you'll find that their earnings on tangible asset have increased a lot. But you will find that this group has moved in that really doesn't — they don't need any net tangible assets at all, or they need very minor amounts.

Charlie?

CHARLIE MUNGER: There's also a lot of financial engineering that's raised leverage, even in the capital-intense businesses. And you know, while Warren may have predicted a little wrong when he wrote that very scholarly article, he didn't invest wrong. And so it just shows that it's hard to make these economic predictions.

WARREN BUFFETT: OK, Jon —

CHARLIE MUNGER: We weren't very right on that one, Warren.

WARREN BUFFETT: Yeah, actually, the performance of the stock market since then has been pretty accurate. (Laughs)

CHARLIE MUNGER: Yes. That's true.

WARREN BUFFETT: Yeah. Being right for the wrong reason or something. (Laughs) Or wrong for the right reasons.

19. "We still feel OK" about AIG's $10.2 retroactive premium

WARREN BUFFETT: Anyway, Jonathan? (Laughs)

JONATHAN BRANDT: Berkshire received a 10.2 billion retroactive premium from AIG early last year. If the upwardly revised estimate of 18.2 billion of ultimate claims proves to be correct, will the cost of float, adjusted for favorable tax attributes, likely be lower or higher than what Berkshire would have paid to borrow 10 billion for a similar duration?

WARREN BUFFETT: Well, we certainly go in with the idea that it will be — the cost will be lower. And it's an interesting situation.

We — essentially, AIG, which is one of the largest property-casualty, particularly commercial property-casualty companies in the world, said, "We want to give you all of the losses that we incurred in a very big percentage of our domestic business before December 31st of 2015, and we will pay the first 25 billion. And then after we pay 25 billion and AIG pays $25 billion, then you pay 80 percent of the next 25 billion." And they gave us $10 billion for doing that. And that's —

If we are correct about our estimates of how much money will be paid and when it will be paid, we should come out being better off than if we had borrowed a similar amount.

We have a history of doing 10 or so — maybe 12 — big deals like that. We hold the record. We did it for Lloyd's of London 10 or more years ago, and we did it now with AIG.

And sometimes we've been on the low side in our estimate, and sometimes we've been on the high side so far.

AIG just said that they — I think they paid 15-and-a-fraction billion on these pre-12/31/2015 losses. They paid 15-and-a-fraction billion. But the payments tend to trickle down over years as you get further away from when the losses occurred.

So I would say that we still feel OK about it, and we'll be wrong one way or the other. Everybody is when you estimate losses that may not get settled for 20 or 30 years. But so far, on the group as a whole of these deals we've done, we've been OK. And I think on the AIG thing, we think we'll be OK. And I think AIG thinks we'll be OK. I mean, they entered into it for good reasons of their own. So it looks OK.

Sorry to get into this technical stuff, but Jonathan always asks me questions like that, so I have to be ready to — I want to answer them.

20. "We really want products where people feel like kissing you"

WARREN BUFFETT: OK. Station 5.

AUDIENCE MEMBER: Good afternoon. My name's Adam Bergman with Sterling Capital in Virginia Beach, Virginia. I'm here with my daughter Michelle from Cape Henry Collegiate in Virginia Beach.

AUDIENCE MEMBER: Hi Warren, hi Charlie.

AUDIENCE MEMBER: Our question for you is how you go about attempting to forecast the degree of future success of one specific product in a good business versus another, such that you invest in American Express and Coca-Cola rather than Diners Club or RC Cola, for example. Thanks.

WARREN BUFFETT: Well, with American Express — (laughs) — it was an interesting situation, because Diners Club got there first. I think American Express, in a certain sense — I mean, they did it for a lot of reasons — but they went into the credit card business because they were worried about what was going to happen to traveler's checks. And — although traveler's checks are — still exist in a significant way.

But the interesting thing when American Express went into competition with Diners Club, and with Carte Blanche, as I remember that — which also existed at the time — was that instead of charging less than Diners Club and going in figuring they were going against the established guy and they'd come in at a lower price, they went in it at a higher price, as I remember.

And the American Express centurion was on that card. I've got one that I got in 1964, but they were in it before that. It had more value in time. I mean, it got better representation. And frankly, if you were a salesperson out with somebody, and you could pull out that American Express card with that centurion, you looked you were JP Morgan. And if you pulled out the Diners Club, it had a whole bunch of flashy symbols, you looked like a guy that was kiting his checks from one month to the next, and — (Laughter)

A fellow named Ralph Schneider — Ralph Schneider and Al Bloomingdale developed the Diners Club. And they were very smart about getting there first, but they weren't smart about how they merchandised it subsequently.

RC Cola, you know, it did — there are all kinds of colas that came after Coke. I mean, you know, you go back to 1886 and come up with something at Jacobs' Pharmacy that's incredibly successful, you know, fairly soon you're going to get lots of imitators. But Coke really is the real thing. And you know, you offer me RC Cola and say, "I'll give it to you at half the price of Coca-Cola," in terms of drinking it, I mean, just, this is a product that's 6 1/2 ounces, sold for a nickel in 1900, you know. And now if you buy it on the weekend and buy it in large quantities and everything, you're not paying that much more. This newspaper was three cents in 1942, you know. I mean, the amount of enjoyment per real — in terms of the real — of what you pay for this, has gone dramatically down in inflation-adjusted money. So it is a bargain product.

You know, you have to look at — See's Candy, you know, if you live in California and you were a teenage boy, and you went to your girlfriend's house and you gave the box of candy to her or to her mother or father and she kissed you, you know, you lose price sensitivity at that point. (Laughter)

So we really want products where people feel like kissing you, you know — (laughs) — rather than slapping you.

It's an interesting thing. I mean, you know, in effect we're betting on the ecosystem of Apple products, but — led by the iPhone. And I see characteristics in that that make me think that it's extraordinary. But I may be wrong.

And you know, so far we've been — I would say we've been right on American Express and Coca-Cola.

American Express had this huge salad oil scandal in 1960 happen — in '63, November, right around the time [President John] Kennedy was shot. And there was really worry about whether the company would survive.

But nobody quit using the card. Nobody quit using the traveler's checks. And they charged a premium price for their traveler's checks. So there are things you can see around consumer products that sometimes can give you a pretty good insight into the future. And then sometimes we make mistakes.

Charlie?

CHARLIE MUNGER: I've got nothing to add, except that if we'd been offered a chance to go into Coca-Cola right after it was invented, we probably would have said no.

WARREN BUFFETT: We'd have turned it down. Yeah.

CHARLIE MUNGER: It would've looked kind of silly to us.

WARREN BUFFETT: Well, unless we drank it, now, Charlie, listen. (Laughs)

No, he's right. I mean, we don't foresee things that we haven't got a lot of evidence in on. And —

CHARLIE MUNGER: No.

WARREN BUFFETT: We want to see a lot of — if we're talking about a consumer product — we want to see how a consumer product behaves under a lot of different circumstances, and then we want to use something — actually, there was a book by Phil Fisher written around 1960 called "Common Stocks and Uncommon Profits." It's one of the great books on investing.

And it talks about the "scuttlebutt method" of investing, which was quite a ways from what Ben Graham taught me in terms of figures. But it's a very, very good book. And you can learn a lot, you know, just by going out and using some shoe leather.

Now they call them channel checks now or something like that. But it's — you can get a feel for some products, and then there are others you can't. And then sometimes you're wrong. But it is a good technique. It's an important investing technique, I would say that. And Ted [Weschler] and Todd [Combs] do a lot of that. And they have people — some people that help them out on doing it, too.

Charlie's done it with Costco. I mean, he's — (Laughs)

I mean, all the time he is finding new virtues in Costco, you know, and then it — and he's right, incidentally. I mean, Costco has an enormous appeal to its constituency. They delight — they surprise and delight their customers. And there is nothing like that in business. You have delighted customers, you're a long way home.

21. Hostile bids aren't "evil" but Berkshire doesn't do them

WARREN BUFFETT: OK, Becky.

BECKY QUICK: This comes from John Hegarty (PH) at Brightstar Capital Partners, who writes, “Warren, you’re stepping down from the Kraft Heinz board at a time when the company’s looking to do a large acquisition: Unilever, for example. Do you fundamentally disagree with the combative nature of hostile bids, activist investing, and competitive proxy contests?”

WARREN BUFFETT: Well, we will not make hostile tenders ourselves. I do not believe that there’s anything fundamentally wrong with the idea. I mean, if you take the Fortune 500 companies, I’m sure that all 500 are not managed by the best, or in some cases even the friendliest to investor managements in the world.

So I don’t think it’s evil or anything to conduct a hostile offer for a company. It’s just we won’t do it, and we don’t want to get into that. We like being liked by the managements that we join, because we’re counting on them to run the company, and we’re not bringing in a whole bunch of people that know how to change businesses.

We seldom take a position opposite the management — very seldom — on anything involving a proxy, but — contest of sorts. But we don’t rule it out. We don’t think every management is entitled to be — you know, they don’t have a lifetime hold on their business. But it’s not our style at all to — well, we won’t do it in terms of initiating it ourselves, and we’d be very, very, very unlikely to support a contest.

But we have voted against a couple of propositions over 50 years that managements have had — made — in relation to stocks options. We withheld a vote at Coca-Cola a few years ago to express our opinion.

But we don’t think it’s evil for the shareholders, in some cases, to have different opinions about who should run the company, or whether compensation’s appropriate, or matters of that sort. The stockholders still own the company.

Charlie?

CHARLIE MUNGER: I’ve got nothing to add to that. I don’t envy these people that are in these unfriendly uproars all the time. Imagine doing that after you’re already rich. It’s insane. (Laughter)

WARREN BUFFETT: Yeah. Yeah, we are definitely not looking for it. We don’t —

There are certainly companies that deserve challenge. And they propose things that deserve challenge occasionally. But again, it's not our main activity.

And incidentally, this has — the question was asked in reference to Kraft Heinz.

The people at 3G are great, great managers. They've been wonderful partners. I had made a determination, before we got involved there, I was going to be on no more public boards. I'd been on 19 of them, and it takes a lot of time. And they asked me if I'd go on for a while, and I did.

But it really is, like, seven-and-a-half days or something. And if you're on a bank board, it may be quite a bit more than that. I mean, there just —

Being on a public board usually means quarterly meetings plus maybe an extra one. And, you know, at 87, I think I've now learned what happens, and it's fine, but I don't want to spend seven-and-a-half days a year when I — maybe I can call up people that I trust and admire who are on the board in five minutes, you know, and find out what's going on or whatever it may be, any questions that come up.

And so we are their partners, and delighted to be their partners. And now we have two people on the board of Kraft Heinz, and they can do the traveling and I can stay home.

Charlie, how many public — you're on Costco, of course, over the — your lifetime, how many public boards?

CHARLIE MUNGER: Oh, I — Costco — except for something —

WARREN BUFFETT: Kansas City Power.

CHARLIE MUNGER: — like The Daily Journal where I own part of it, Costco's the only public board —

WARREN BUFFETT: You were on Kansas City Power.

CHARLIE MUNGER: — if it wasn't Berkshire or something I owned personally.

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: I was on Kansas City Power and Light. Boy, that goes way back. But basically it hasn't happened. I don't envy people who float around to a lot of different board meetings.

WARREN BUFFETT: No, generally speaking you have very little influence and spend a lot of time. And the trouble is, if you're going to a board meeting, particularly if you get to the international, and sometimes they feel they have to have one that's international, you know, they feel they have to take up a fair amount of your time or it wouldn't have been worth coming, you know, thousands of miles for.

So you get a lot of the show and tell stuff and — that — I find my mind drifting. OK. (Laughter)

22. Berkshire still not on radar screen of international business sellers

WARREN BUFFETT: Gary.

GARY RANSOM: Yes, you've said that you are looking for non-insurance large acquisitions to put that cash to work. And when you've said that, I've usually thought of the United States, because you're a big fan of the U.S. business.

And I just was wondering whether you're seeing more opportunities as the rest of the world opens up, grows, whether there's opportunities for some of those mega-transactions in other parts of the world, say Asia or Europe.

WARREN BUFFETT: Yeah, Gary, I would say that I've been disappointed in that, because we do see some outside the United States, and thank heavens we saw the one we saw in Israel some years ago [ISCAR] when Eitan [Wertheimer] wrote me a letter. But — and you know, we bought a business which is a very important part of Berkshire now.

But we are still not — they're certainly aware of Berkshire Hathaway outside the United States. But they don't sort of pick up the phone automatically.

In the United States, I think any large — particularly private — company that thinks — is thinking about doing something, they at least think about Berkshire. But that — in Europe or Asia, that — we are not embedded in the minds the same way.

They know about us, they know we've got a lot of money and they know we like to buy things. But we really, we're on the radar screen big-time in the United States, and we're not as — we don't — the immediate desire to be sure that they've thought about the Berkshire option does not occur the same way outside the United States. And we've tried to encourage it a few ways. But I would say that the results have not been great at all.

But I hope tomorrow, you know, I get a call from Germany or Britain or Italy or you name it, and Australia, wherever it may be. And I hope I get a call and we get an opportunity to do it.

There's a good many countries we'd be quite happy to put substantial money into it. And like I say, our experience in Israel has been just terrific.

Charlie?

CHARLIE MUNGER: Yeah, but the corporate acquisition game now is so driven by the leveraged buyout and the so-called, whatever they call them, strategic, yes, strategic. I usually translate that into barnyard language. (Buffett laughs)

And we're so — there's so much craziness in price from our viewpoint. Of course, it's very hard for us to do it.

The people in the leveraged buyout game, who love massive leverage and don't mind high prices, even they are getting nosebleeds. It's hard. And it's not an environment that means that — that allows Berkshire just to go out and buy a whole lot of companies.

WARREN BUFFETT: Have you ever made a strategic deal that you —

CHARLIE MUNGER: We have to wait.

WARREN BUFFETT: We've made a strategic deal that you can remember?

CHARLIE MUNGER: Hmm?

WARREN BUFFETT: Have we ever made a deal that we would have regarded as strategic?

CHARLIE MUNGER: We've never had a strategic plan unless you've hidden it from me. (Laughter)

WARREN BUFFETT: OK. That answers that.

23. Investing "doesn't require advanced learning"

WARREN BUFFETT: Station 6.

AUDIENCE MEMBER: Hi, I'm Brady Ritchie (PH) from St. Louis, Missouri. Shareholder since 1996.

WARREN BUFFETT: Terrific.

AUDIENCE MEMBER: Warren, you and Charlie have been critical of business schools in the past and what they teach. With respect to value investing, in "Superinvestors of Graham-and-Doddsville," you featured the returns of many great investors with different backgrounds' work in education, with the lesson being, "Following the philosophy is the key."

To be successful today, does it still just fall back to chapter eight of "The Intelligent Investor?" And what do you think of programs and designations such as CFA, CFP, et cetera, which purport high standards yet root it heavily into academia? And I'd like to challenge you to a round of bridge tomorrow. (Laughter)

WARREN BUFFETT: And what was the last part?

CHARLIE MUNGER: Well, he was talk — what do we think about —

WARREN BUFFETT: Yeah, business schools and all that.

CHARLIE MUNGER: — business schools and all that.

WARREN BUFFETT: I didn't catch the last —

CHARLIE MUNGER: They're better —

WARREN BUFFETT: Oh, he's challenged me to a round of bridge. OK. The — (Laughter)

I went to three business schools, and at each I found a teacher or two. I went to one specifically to get a given teacher. But at each one of them I found a teacher or two that I really got a lot out of. The — so we're not anti-business school here at all.

We do think that the priesthood, say, 30 years ago, for example, in terms of — or 40 years ago — in terms of efficient market theory and everything. They strayed pretty far, in our view, from the reality of investing. And I would rather have a person — if I could hire somebody among the top five graduates of number one, two or three of the business schools, and my choice was somebody that had — was bright — but had chapter eight of "The Intelligent Investor" absolutely — it just was natural to them — they had it in their bones, basically — I'd take the person from chapter eight.

This is not — what we do is not a complicated business. It's got to be a disciplined business, but it is — it does not require a super IQ or anything of the sort. And there are a few fundamentals that are incredibly important, and you do have to understand accounting. And it helps to get out and talk to consumers and start thinking like a consumer in many ways in certain — and all of that.

But it just doesn't require advanced learning. And — I — I certainly — you know, I didn't want to go to college, so I don't know whether I would have done better or worse if I'd just quit after high school, you know, and read the books I read and all of that.

I think that if you run into a few great teachers, and they really change the way you see the world to some degree, you know, you're lucky. And you can find them in — you can find them in academia and you can find them in ordinary life.

And I’ve been extraordinarily lucky in having great teachers, including Charlie. I mean, Charlie’s been a wonderful teacher. And, you know —

Anyplace you can find somebody that gives you insights into things you didn’t understand before, maybe makes you a better person than you would have been before, you know, you get — that’s very lucky, and you want to make the most of it. If you can find it in academia, make the most of it. And if you can find it in the rest of your life, make the most of it.

Charlie?

CHARLIE MUNGER: Well, when you found Ben Graham he was unconventional, and he was very smart. And of course, that was very attractive to you. And then when you found out it worked and you could make a lot of money while you’re sitting on your ass — (laughter) — of course you were an instant convert. And so —

WARREN BUFFETT: It still appeals to me, actually. I mean — (Laughter)

CHARLIE MUNGER: But the world changed. Before he died, Bill Graham — I mean, Ben Graham — recognized that the exact way he sought undervalued companies wouldn’t necessarily work for all times under all conditions. And that’s certainly the way it worked for us.

We gradually morphed into trying to buy the better companies when they were underpriced, instead of the lousy companies when they were underpriced. And of course, that worked pretty well for us.

And Ben Graham, he outlived the game that he played personally most of the time. He lived to see most of it fade away. I mean, just to find some company that’s selling for one third of its working capital, and figure out it could easily be liquidated and distribute $3 for every dollar of market price. Lots of luck if you can find those in the present market. And if you can find them, they’re so small that Berkshire wouldn’t find them of any use anyway.

So we’ve had to learn a different game. And that’s a lesson for all the young people in the room. If you’re going to live a long time, you have to keep learning.

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: What you formerly knew is never enough. So if you don't learn to constantly revise your earlier conclusions and get better (inaudible), you are — I always use the same metaphor. You're like a one-legged man in an ass-kicking contest. (Laughter)

WARREN BUFFETT: If anybody has suggestions for another metaphor, send them to me. (Laughter)

Graham, incidentally, one point, important point. Graham was not scalable. I mean, you could not do with really big money. And when I worked for Graham-Newman Corp, here he was, the dean of all analysts. And you know, he was an intellect above all others around that time.

But our — the investment fund was $6 million, and the partnership that worked in tandem with the investment company also had about $6 million in it. So we had 12 million bucks we were working with. Now, you can make adjustments for inflation and everything. But it was just a tiny amount. It wasn't really scalable.

And the truth is that Graham didn't care, because he really wasn't interested in making a lot of money for himself. So he had no reason to want to find something that could go on and on, become larger and larger.

And so the utility of chapter eight, in terms of looking at stocks as a business, is of enormous value. The utility of chapter 20 about a margin of safety is of enormous value. But that's not complicated stuff.

CHARLIE MUNGER: I finally figured out why the teachers of corporate finance often teach a lot of stuff that's wrong. When I had some eye troubles very early in life, I consulted a very famous eye doctor. And I realized that his place of business was doing a totally obsolete cataract operation. They were still cutting with a knife after better procedures had been invented.

I said, "Why are you in a great medical school performing absolute obsolete operations?" And he said, "Charlie, it's such a wonderful operation to teach." (Laughter)

Well, that's what happens in corporate finance. They get these formulas, and it's a fine teaching experience. (Laughter)

You give them a formula, you present the problem, they use the formula. You get a real feeling of worthwhile activity. (Laughter)

There's only one there. It's all balderdash.

WARREN BUFFETT: Yeah, whenever you hear a theory described as elegant, watch out, you know. (Laughter)

CHARLIE MUNGER: Right.

24. Buffett "bullish on human race" as women enter the workforce

WARREN BUFFETT: OK, Andrew.

ANDREW ROSS SORKIN: This question — we got a couple like this one — comes from Lauren Taylor Wolfe. She's a managing partner at Impactive Capital.

"Warren, you've recently said that one of the things that makes you optimistic about America is women entering the workforce and the quote 'doubling of the talent that's effectively employed in that workforce.' When it comes to positions of leadership, however, women make up less than 21 percent of boards of S&P 500 companies, and an even smaller 5 percent of the CEOs.

"What can Berkshire do, and what is Berkshire specifically doing, as a major investor in many of these large companies, to advance gender equality, both at the board level and among senior leadership?"

WARREN BUFFETT: Yeah. Well, again — (applause) — you know, as I've pointed out in the past, one of my sisters is here. And I have two sisters that are absolutely as smart as I am. And they have better personalities, as anybody that knows both of us — or all of us — can attest. And they didn't remotely have the same opportunities I had.

And you have this 1942, or — New York Times — and you know, women could be nurses or teachers or retail clerks or stenographers. And that actually worked enormously to my advantage when I was a kid in Omaha in the '30s, because I had way better teachers, because they were — that was a job open to women, I didn't have a single male teacher in grammar school, and Charlie didn't when he went to Dundee, I don't think, either.

And we had this huge talent pool that was being funneled into very few opportunities, and therefore we got better than we deserved in terms of a market system producing it. The —

Again, our managers run their companies. But I've probably named — before we made this management change — I probably named only six or seven CEOs in the last five or six years. We don't change that much. But I would say that half of them that I've named have been women, which is about what you would — what should turn out to be the case in terms of ability.

Now, there is a certain pipeline problem, but that gets cured with time, and you can't use that forever as an excuse.

And you know, I feel very good about the decisions we made for CEOs. I prefer all our CEOs to live forever. And one woman almost did that, that we hired. Mrs. B. [Nebraska Furniture Mart founder Rose Blumkin] lived to be 104. She retired at 103. And that's a lesson to our other managers, that if you retire prematurely, you know — (laughter) — no telling what'll happen.

But it is absolutely true. It does make me bullish. It makes me bullish on the human race. But it's certainly on our country. Because if you look at what happened, you know, before the 19th Amendment, and then after the 19th Amendment for a long time, and continuing to this day, but it's — that — there's been significant improvement.

And I do feel more optimistic about the future, because I think there will be more selection by merit, rather than, you know, by gender or by race or by inheritance.

I think that if you had a system where all businesses got passed on to the eldest son or something, I think it — I think that society would make a lot less progress than one that's merit-based.

Charlie?

CHARLIE MUNGER: Well, we did live in a different age. There's an old saying that the past is a very strange country. People behave quite differently there. And it was just totally different. And it was ridiculous that — I cannot remember — I had one or two male teachers in my high school. But almost none. And the world has really changed.

And within Berkshire, I've never seen any overt discrimination anywhere on the grounds of gender.

WARREN BUFFETT: There probably has been some, though. I mean —

CHARLIE MUNGER: No, no, I'm sure that we have our —

WARREN BUFFETT: Oh, there has —

CHARLIE MUNGER: —share of all the peculiarities of human nature.

WARREN BUFFETT: Sure.

CHARLIE MUNGER: But it's generally, it's — everything has always improved, wouldn't you agree with that?

WARREN BUFFETT: Yeah.

CHARLIE MUNGER: And I think it'll keep improving.

25. Berkshire buybacks not limited by state insurance rules

WARREN BUFFETT: OK. Gregg?

GREGG WARREN: Warren, in this year's annual report it was noted, much as it is every year, that payments of dividends by the company's insurance subsidiaries are restricted by insurance statutes and other regulations, with Berkshire's insurance operations currently allowed to declare up to 16 billion as ordinary dividends during 2018.

My question here is, should we view this annual regulatory threshold for dividends as a benchmark for allowable share repurchases as well? And in the event that Berkshire wanted to buy back more stock than that, or pay out even more as dividends, would there be an issue with you using capital from operations that aren't held by the insurance operations to return additional capital?

With the side question here being, would the annual cash distribution from BNSF, which is held on National Indemnity's books, be excluded?

WARREN BUFFETT: Yeah. The — we will obviously follow the rules of the states in which we're domiciled, and all the rules, of course. But basically it's the state of domestication in the insurance companies, and they do restrict the amount of dividends in any given year. Although you could, if you wanted to, request some additional amount. But we don't ever consider that.

But repurchases — if repurchases were really attractive, we would do it in a very big way. And, you know, I wouldn't rule — there's all kinds of ways that we could arrange things to do either a very large acquisition, which is what I would prefer, or a very large repurchase, would I don't think is probably in the cards just because the way our stock trades, not because we wouldn't like it at a large discount.

So Charlie and I, we've got the appetite. And we would have — we've got a lot of cash — but we could have a lot more cash. We can make any deal of — even one of a very large size. We can make anything that came along — we could work out how to get it done.

We would — we would have — we're not going to be doing this, but we would have partners who would come in and give us a preferential part of a partnership. That's not going to happen, in all probability. But there's a lot of things that we could do. So don't rule out anything based on statutory limitations of distributions from insurance companies —

CHARLIE MUNGER: And that — we could get special permissions to —

WARREN BUFFETT: Oh, we can get —

CHARLIE MUNGER: — declare bigger dividends. We are not — you should not assume that we're constrained by the laws of nature to the amount that we can take out under the statutes now.

26. Munger: "I don't think the world is going to be changed that much by machine intelligence"

WARREN BUFFETT: OK, station 7.

AUDIENCE MEMBER: Hi, Warren and Charlie. Thank you for everything. I'm David (inaudible), an investment manager in Shanghai. I've been here for eight years.

If investment is a sport in the Olympics, you are our champion team. So my question is, facing the fast-growing machine challenges, how do you see the new competition impact the capital allocation productivity in the future?

For Charlie, what is the first principle of capital allocation from a general economic interest point of view? Thank you.

CHARLIE MUNGER: Well, two questions. Machine intelligence. I'm afraid the only intelligence I have is — is being provided by something that's not a machine. And I don't think I'm going to learn machine intelligence. Yeah. If you ask me how to beat the game of Go with my own intelligence, I couldn't do it. And I think it's too old for me to learn computer science.

Generally I'm — I think that the machine intelligence has worked. After all, a machine now can beat the best human player of Go. But I think there's more hype in that field than there is probable achievement.

So I don't think the world is going to be changed that much by machine intelligence. Some, but not hugely.

And what was the other question?

WARREN BUFFETT: Well —

CHARLIE MUNGER: One of them was machine intelligence.

WARREN BUFFETT: I think he was getting at capital allocation —

CHARLIE MUNGER: Oh yeah. That's such a general question. Generally speaking, we're always trying to get the best — to get something that's worth buying.

And the human mind rejects that if you're in academia, because you could come in and make one declaratory sentence at the opening of the semester and you wouldn't have anything to do for the rest of the — of your time. So people want to find some formula. It's what I call "physics envy." These people want the world to be like physics.

But the world isn't like physics, outside of physics. And that false precision just does nothing but get you in trouble.

So I would say you've got to master the general ideas, and you've got to work to improve your judgment slowly, the way all the rest of us had. And I don't think most individuals have much hope of individual gain from machine intelligence.

WARREN BUFFETT: No, I don't — I don't think that — I'm impressed when machines beat Go or something of the sort, or even win at chess or whatever it may be.

I don't really think they bring much to the table in terms of capital allocation or investing. And then I may be missing something entirely, you know, maybe I'm just blind to what's out there.

CHARLIE MUNGER: You're missing a lot of very remunerative, fee-earning twaddle. (Laughter)

WARREN BUFFETT: Yeah, well. Well, that takes care of that. So we'll go on to station 8. (Laughter)

27. Munger: "American investors are missing China"

AUDIENCE MEMBER: Dear Mr. Buffett and Mr. Munger, thank you very much for hosting the meeting. It's truly been remarkable. Thank you.

My name is Yen (PH), and I'm a partner at Tiger Brokers, a leading electronic brokerage firm from China.

Let me rephrase that. So, I and my colleagues flew half a way from the globe with (inaudible) to be here, and it is honor, just like everyone else in the stadium, we're honored to be here.

My question is, you mentioned earlier that investors don't really have to be struggling in picking the right stocks. They would do well in picking, probably, the right market and the right country.

China is the second-largest economy, and probably has the biggest growth potential. Just by passively weighting a portfolio — by passively valuating a portfolio — U.S. investors are significantly underweighting China. So in your opinion, what are stopping the investors from investing in China? Thank you.

CHARLIE MUNGER: Well, I think the answer is that you're absolutely right. That we are — American investors are missing China. And they're missing it because it's a long way away, it looks different, they're not used to it, it's complicated, the headlines confuse them.

In other words, it just looks too hard, sitting in Omaha, to outsmart the Chinese market. But I think you're absolutely right. It's where they should be looking.

WARREN BUFFETT: OK. (Laughter)

We've actually had a couple investments in China. We've done pretty well. But there were — well, if you go back a number of years, (inaudible).

In terms of getting a lot of money into something, you know, many billions, and we have to get billions into things in — to move any kind of a needle, that can be tougher in markets that you've got — you're unfamiliar working in. And it's difficult under any circumstances.

But accumulating a 6 or 8 or $10 billion position in investments outside the United States can be very difficult. For example, in U.K. and much of Europe we have to report when we own 3 percent of a company. In fact, we can be asked to report if we even have less than 3 percent. That really gets very tough when we get a bunch of followers and a lot of publicity that probably isn't deserved in terms of what we're doing in the markets and everything.

Some of the problems are, just by the nature of our size. It would be lot — it'd be a lot easier if we were running a smaller fund.

PetroChina, we managed to get a very big position. But the government owned 90 percent of it. So we bought 14 percent of what the government didn't own, but it was still only 1.4 percent of the company.

But Charlie, Charlie actually keeps pushing me to do more in China. And we've tried a couple of times, actually. And there was one operation that we got involved in —

CHARLIE MUNGER: Well, you did so poorly the first time, you put in 200,000 and got about 2 billion, so.

WARREN BUFFETT: Yeah. Yeah. Well.

CHARLIE MUNGER: Wasn't encouraging enough. (LAUGHTER)

28. "What Jeff Bezos has done is something close to a miracle"

WARREN BUFFETT: OK. Station 9.

AUDIENCE MEMBER: My name is Dr. Sherman Silber. I'm an infertility doctor from St. Louis. And I've been a shareholder and coming to this meeting for 23 years, and I want to thank you very much for making my grandchildren very rich. (Laughter and applause)

And they sometimes compare me in the medical world — infertility world — as the Berkshire Hathaway of infertility, because I'm so old and I come from a relatively small community.

But I'm wondering about your interests in not just Apple, but all of the tech stocks, like Amazon and Google. Because you've avoided them, you've stated in the past, because they're complicated, you should stick with something you understand.

On the other hand, Amazon and Google have what you call a very durable competitive advantage. They really hardly have any competitor. And that's true in China, too, of Alibaba and Tencent.

So it seems like it's a conflict, and I'm wondering if you're going to be turning the corner and going into these tech companies that seem to have no serious competition.

WARREN BUFFETT: Well, we certainly looked at them. And we don't think of whether we should be in tech companies or not, or that sort of thing. We are looking for things when we do get into the durability of the competitive advantage, and whether we think that our opinion might be better than other people's opinion in assessing the probability of the durability, so to speak.

But the truth is that I've watched Amazon from the start, and I think what Jeff Bezos has done is something close to a miracle. And the problem is, if I think something will be a miracle, I tend not to bet on it. (Laughs)

It would have been better — far better, obviously — if we — if I had some insights into certain businesses.

But you know, in fact, Bill told me early on — Bill Gates told me early on — you know, that I think I was on AltaVista and he suggested I turn to Google.

But the trouble is I saw that Google was skipping past AltaVista, and then I wondered if anybody could skip past Google. And I saw at GEICO that we were paying a lot of money for something that cost them nothing incrementally.

We've looked at it, and you know, I made a mistake in not being able to come to a conclusion where I really felt that at the present prices that the prospects were far better than the prices indicated.

And I didn't go into Apple because it was a tech stock in the least. I mean, I went into Apple because I made certain — came to certain conclusions about both the intelligence with which the capital would be employed, but more important, about the value of an ecosystem and how permanent that ecosystem could be, and what the threats were to it, and a whole bunch of things.

And that didn't — I don't think that required me to, you know, take apart an iPhone or something and figure out what all the components were or anything. It's much more the nature of consumer behavior. And some things strike me as having a lot more permanence than others.

But the answer is, we'll miss a lot of things that — or I'll miss a lot of things — that I don't feel I understand well enough.

And there is no penalty in investing if you don't swing at a ball that's in the strike zone, as long as you swing at something at some point, then you know, eventually that you find the pitches you like. And that's the way we'll continue to do it. We'll try to stay within our circle of competence.

And Charlie and I generally agree on sort of where that circle ends, and what kind of situations where we might have some kind of an edge in our reasoning or our experience or something that — where we might evaluate something differently than other people.

But the answer is, we're going to miss a lot of things.

Charlie?

CHARLIE MUNGER: Yeah, we have a wonderful system. If one of us is stupid in some area, so is the other. (Laughter)

And of course, we were not ideally located to be high-tech wizards. How many people of our age quickly mastered Google? I've been to Google headquarters. They look to me like they're — it looks like a kindergarten. (Laughter)

WARREN BUFFETT: A very rich kindergarten.

CHARLIE MUNGER: Yes. (Laughter)

WARREN BUFFETT: No, it's extraordinarily impressive, what they've done. And like I say, at GEICO we were paying them a lot of money at the time they went public. And all three of the main characters — Eric [Schmidt] and Larry [Page] and Sergey [Brin] — they actually came and saw me. But they were more interested in talking about going public and the mechanics of it and various things along that line.

But it wasn't like what they were doing was a mystery to me. The mystery was how much competition would come along, and how effective they would be, and whether it would be a game where four or five people were slugging it out without making as much money as they could if one company dominated.

Those are tough decisions to make. You can have industries where there's only two people in it, and they still don't (inaudible) very good because they beat each other's brains out. And that's one of the questions in the airline business. It's a better business now than it used to be, but it used to be suicide, so — (Laughs)

And you know that the competitive factors are extraordinary in airlines, and how much better business is it with four people operating at 85 percent capacity than it was at — with seven or eight operating in the mid-70s, and with more planes run. Those are tough decisions.

But I made the wrong decision on Google. And Amazon, I just — I really consider that a miracle, that you could be doing Amazon web services and changing retail at the same time, with — you know, without enormous amounts of capital, and with the speed and effectiveness of what Amazon has done.

I just — I underestimated — I had a very, very, very high opinion of Jeff's ability when I first met him. And I underestimated him. (Laughs)

Charlie?

CHARLIE MUNGER: Well, my comment would be that the shareholders have one thing to be thankful for.

Some of the age-related stupidity at headquarters has been ameliorated by Ted [Weschler] and Todd [Combs] joining us. We are looking at the world with the aid of some younger eyes now. And they've had a contribution —

WARREN BUFFETT: Significant.

CHARLIE MUNGER: — beyond their own investments. And so you're very lucky to have them be shareholders. Because there's a lot of ignorance in the older generation that needs removal. (Applause)

29. "We already have a family office. It's sitting right here"

WARREN BUFFETT: OK, station 10.

AUDIENCE MEMBER: Hi, good afternoon. Good afternoon, Warren. Good afternoon, Charlie. And my name is Yujin. I come from China, and I work for Hen Tian Tsai Fu family office. And we are serving high-worth individual clients in China. And you two would be my dream customer.

I know your shareholder Bill Gates has a family office, which, helping his wealth. So my question is, do you have a family office, and what — can we know what they do, some — anything for you? And if not, are you planning to have a family office in the future?

CHARLIE MUNGER: We already have a family office. It's sitting right here. (Laughter)

WARREN BUFFETT: Yeah, we would be the last guys in the world to have a family office, actually. (Laughter)

There are a lot of them around, and — but it's not something that fits the Munger family or the Buffett family. (Laughs)

Charlie, you have anything?

CHARLIE MUNGER: No.

WARREN BUFFETT: OK.

30. No "precise formulas" on Berkshire's incentive plans

WARREN BUFFETT: Let's — we'll do one more. Station 11.

AUDIENCE MEMBER: Hi Warren, Charlie. My name is Adam Mead, Mead Capital Management from Derry, New Hampshire.

In the past you have touched on certain compensation arrangements with key executives. Could you please provide some specific examples of compensation arrangements within Berkshire that speak to incentivizing good behavior while not penalizing the manager for size or the relative ease or difficulty of the business or industry? Thank you.

WARREN BUFFETT: Well, that is a very, very good question, and a very, very tough question. Because some of our —

CHARLIE MUNGER: He really doesn't want to answer.

WARREN BUFFETT: Well, some of our managers — (Laughter)

No, some of our managers are in businesses that are just much easier. I mean, we bought into a variety of businesses. People are obviously influenced by what pay arrangements are elsewhere. They wouldn't be human if they weren't.

And trying to come to the right answer when you have different degrees of capital intensity, different degree — very different degrees — of basic profitability, and how much you scale up based on size, because there is an incentive to grow businesses. Usually if businesses get much larger, everybody from the CEO down expects to earn more money for something that — where they really bring the same amount of intensity and work and (inaudible) to it.

It is really a tough question. I think that if you engage compensation consultants at public companies, which they all do, they're going to recommend things that cause them to have CEOs recommend them to other companies. (Laughs)

It's just, you're working against human nature when you have an arrangement like that.

I would say that we have obviously kept a very, very, very high percentage of the managers that we hoped to have stay with us. In fact, just about a hundred percent. It's —

And I think people do like — they do like to make their own decisions. They do like recognition. You know, they — most people respond — they like doing a good job, and they like the fact that we understand it. And compensation's part of that. But it's not the whole thing.

And I wish I could give you some precise formulas, but there aren't any —

CHARLIE MUNGER: No, you really don't, Warren.

WARREN BUFFETT: What?

CHARLIE MUNGER: It's an advantage at Berkshire to keep our individual deals private. There would be no advantage to just publishing them all.

WARREN BUFFETT: No, we're not going to do that.

CHARLIE MUNGER: No, of course not. So what we're saying, he makes all those decisions personally. He's got every formula in the book. And he keeps them all private. That's our system. (Laughter)

WARREN BUFFETT: Well, we do — (Laughter)

We publish what the directors are paid.

CHARLIE MUNGER: We publish what we have to, yes.

WARREN BUFFETT: OK. It's 3:30 now. We're going to reconvene at 3:45.

Charlie and I, we love the fact that our partners basically turn out for this. So we thank you for coming. I hope you've had a good time, both at the meeting and in Omaha. And we look forward to seeing you again next year. Thanks. (Applause)

31. Formal business meeting

WARREN BUFFETT: We're going to move it right along — do a little gun-jumping here.

If you'll please take your seat, thank you.

This is the formal meeting, so the meeting will now come to order.

I'm Warren Buffett, chairman of the board of directors of the company, and I welcome you to this 2018 annual meeting of shareholders.

This morning, I introduced the Berkshire Hathaway directors that are present and also with today are partners in the firm of Deloitte & Touche, our auditors.

Jennifer Tselentis is the assistant secretary of Berkshire Hathaway. She will make a written record of the proceedings.

Becki Amick has been appointed inspector of elections at this meeting, and she will certify to the count of votes cast in the election for directors and the motions to be voted upon at the meeting.

The named proxy holders for this meeting are Walter Scott and Marc Hamburg. Does the assistant secretary have a report of the number of Berkshire shares outstanding entitled to vote and represented at the meeting?

VOICE: This is the important part.

VOICE: You sit there.

WARREN BUFFETT: We're building the suspense here. (Laughs)

JENNIFER TSELENTIS: Yes, I do. As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 7th, 2018, the record date for this meeting, there were 748,347 shares of Class A Berkshire Hathaway common stock outstanding with each share entitled to one vote on motions considered at the meeting, and 1,344,969,701 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to 1/10,000th of one vote on motions considered at the meeting.

Of that number, 537,524 Class A shares and 823,145,874 Class B shares are represented at this meeting by proxies returned through Thursday evening May 3rd.

WARREN BUFFETT: Thank you. That number represents a quorum. And we will therefore directly proceed with the meeting.

First order of business will be a reading of the minutes of the last meeting of shareholders. I recognize Mr. Walter Scott who will place a motion before the meeting.

WALTER SCOTT: I move that the reading of the minutes of the last meeting of shareholders be dispensed with and the minutes be approved.

WARREN BUFFETT: Do I hear a second?

RON OLSON: I second the motion.

WARREN BUFFETT: Motion has been moved and seconded. We will vote on this motion by voice vote. All those in favor say aye.

VOICES: Aye.

WARREN BUFFETT: Opposed. The motion is carried.

The next item of business is to elect directors. If a shareholder is present who did not send in a proxy or wishes to withdraw a proxy previously sent in, you may vote in person on the election of directors and other matters to be considered at this meeting. Please identify yourself to one of the meeting officials in the aisles so that you can receive a ballot.

I recognize Mr. Walter Scott to place a motion before the meeting with respect to the election of directors.

WALTER SCOTT: I move that Warren Buffett, Charles Munger, Greg Abel, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ron Olson, Walter Scott, and Meryl Witmer be elected as directors.

WARREN BUFFETT: Is there a second?

RON OLSON: I second the motion.

WARREN BUFFETT: It has been moved and seconded that Warren Buffett, Charles Munger, Gregory Abel, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ronald Olson, Walter Scott, and Meryl Witmer be elected as directors. Are there any other nominations or any discussion?

The nominations are ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballots on the election of directors and deliver their ballots to one of the meeting officials in the aisles. Miss Amick, when you are ready you may give your report.

BECKI AMICK: My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast not less than 605,906 votes for each nominee. That number exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

WARREN BUFFETT: Thank you, Miss Amick. Warren Buffett, Charles Munger, Gregory Abel, Howard Buffett, Steve Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ron Olson, Walter Scott, and Meryl Witmer have been elected as directors.

32. Shareholder motion on methane emissions

WARREN BUFFETT: The next item of business is a motion put forth by Freeda Cathcart on behalf of shareholder Marcia Sage. The motion is set forth in the proxy statement. The motion requests that the company provide a report revealing the company's policies, actions, plans, and reduction targets related to methane emissions from all operations.

The directors have recommended that the shareholders vote against the proposal.

I will now recognize Miss Cathcart to present the motion. To allow all interested shareholders their views, I ask that the representative of the Baldwin Brothers limit the presentation of the motion to five minutes.

FREEDA CATHCART: Good morning Chairman Buffett, Mr. Munger, members of the board and fellow shareholders. I am presenting this proposal on behalf of Baldwin Brothers on the issue of methane asset risk. This is the second year for this methane-focused proposal. Last year 10 percent of shareholders approved of it.

Methane asset risk is a serious financial safety and environmental issue across the entire natural gas supply chain. The failure of a gas injection well at Southern California Gas Aliso Canyon Storage facility in Los Angeles revealed major vulnerabilities in the maintenance and safety of natural gas facilities.

In that situation, cleanup and containment costs have soared to close to $1 billion. Governor Jerry Brown of California has threatened to shut down the facility.

Berkshire Hathaway owns the largest interstate natural gas pipeline system in the United States. It has natural gas storage distribution and transportation facilities that may face similar safety risks through the Northern Natural Gas Company, Kern River Gas, and MidAmerican Energy Corporations.

On an environmental front, research indicates methane leaks could erase the climate benefits of reducing coal use to meet internationally agreed upon climate change targets. Methane emissions have an impact on global temperature of roughly 84 times that of CO_2 over a 20-year period.

Berkshire is a voluntary member of the EPA’s Methane Challenge and ONE Future Emissions Intensity Commitment Framework and should be applauded for reducing its leakage rates to below the 1 percent target along its value chain.

Since this framework is a cost-effective versus prescriptive approach, shareholders would like to understand if this cost-effective approach employed at Berkshire is sufficient — maintenance and enhanced disclosure should help mitigate the potential for these financial and regulatory risks.

In closing, we think it prudent that Berkshire Hathaway issue a report revealing and disclosing the company’s specific best practices, policies, and safety standards for methane assets and required upgrade costs to facilities to mitigate potential business risks.

The report would make it easier for investors, customers, and regulators to understand Berkshire’s overall approach to managing methane emissions and risks. Thank you for your consideration.

WARREN BUFFETT: Miss Cathcart, could you help me out? Are there some other people that are there to speak? I can't quite see from here.

VOICE: No, there are no other shareholders who wish to speak on this issue.

FREEDA CATHCART: There's nobody behind me to speak.

WARREN BUFFETT: Did you get that, Charlie?

CHARLIE MUNGER: No.

WARREN BUFFETT: Greg — could we put up slide one and then if somebody will give Greg a microphone, that'd be helpful. He could elaborate some on this chart and knows what we're doing.

GREG ABEL: OK. Thanks, Warren and appreciate the comments there. What we've prepared here is in response to the proposal. It demonstrates the ONE Future Initiative goal as it was highlighted. They'd like to see our pipelines operating by 2025 at a 1 percent throughput — or a loss of throughput at 1 percent.

I'm happy to report, as this slide shows, that in 2017 our throughput loss was 0.046 percent, 20 times better than the request in 2025. (Applause)

Thank you. It's a great compliment to our operating team, obviously. They take the issue that has been highlighted very seriously. I would also add, as it was noted, we're part of the EPA program where we report on a voluntary basis. Our practices are disclosed and reviewed by the EPA and additionally added on our website.

Accordingly, I strongly feel we're getting the results and disclosing the appropriate information. Thank you.

WARREN BUFFETT: Yeah, and thanks Greg. And Miss Cathcart, we are on the same side you are on this basically. We just are not looking for ways to conduct more studies and prepare reports that may cost us money and generate more reports and all that. But I can tell you two things.

This is something that is reported to the board of directors of Berkshire Hathaway Energy quarterly. And I'm on that board. And we believe in achieving the same things and we think Berkshire Hathaway Energy is both sensitive and effective — sensitive to and effective — in reducing methane emissions.

So if — I think we're now ready. The motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballots on the motion and deliver their ballot to one of the meeting officials in the aisles. Miss Amick, when you're ready, you may give your report.

BECKI AMICK: My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 48,040 votes for the motion and 558,640 votes against the motion.

As the number of votes against the motion exceeds a majority of the number of votes of all Class A and Class B shares properly cast on the matter, as well as all votes outstanding, the motion has failed. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

WARREN BUFFETT: Thank you, Miss Amick. The proposal fails.

33. Shareholder proposal on sustainability reports

WARREN BUFFETT: The next item of business is a motion put forth by shareholder Freeda Cathcart. The motion is set forth in the proxy statement. The motion requests that Berkshire adopt a policy to encourage more Berkshire subsidiary companies to issue annual sustainability reports.

I will now recognize Freeda Cathcart to present the motion, and to all interested shareholders to present their views I ask her to limit her remarks to five minutes. You have the floor, Miss Cathcart.

FREEDA CATHCART: Thank you so much. It is a privilege to be here and a privilege I can give thanks to my grandfather James Cathcart, who started out in the mailroom of Gen Re and worked himself up through the company to become the chair of Gen Re. During that time he accumulated a lot of Gen Re stock, which he bestowed generously upon his family.

And when he did so, he encouraged the members of his family to do good and to pay it forward, to do something that would make a difference in the world and in our communities. For my father, he did so by being philanthropic with educational institutions with the theory that if you give a person a fish you feed them for a day, but if you teach them to fish, you feed them for a lifetime.

My focus has been on the environment with the thought that when people fish, it would be nice if they were able to eat the fish.

I want to take this opportunity to clarify my proposal about the sustainability reports and put the emphasis on the word encourage. It is evident that Berkshire Hathaway's management of allowing the subsidiaries to work without getting guidance — well, mandates from you is being very successful.

And I wouldn't recommend changing it. You're doing a great job. Please keep it up.

But I do think that there's something to be said to encourage them and support them, and in many ways you already are.

There is a high level of interest from investors and the public in corporate social responsibility. One-fifth of investments are based on socially responsible investment strategies. And back in 2012, I found an article by Planet Earth Herald where they wrote, "When Warren Buffett talks, people listen. He is now talking about the environment. He believes that companies need to have a triple bottom line. And respecting the environment is absolutely critical to a company's economic performance."

In times — and this is a direct quote from you, Mr. Buffett, "In times such as these a company must invest in the key ingredients of profitability: its people, communities, and the environment."

One-third of Berkshire Hathaway's subsidiaries already have a sustainability presence on the web. And one of them is Berkshire Energy that has the acronym respect, R-E-S-P-E-C-T, which stands for Responsibility, Efficiency, Stewardship, Performance, Communication, and Training.

And Berkshire Hathaway provides an annual sustainability summit to help bring the subsidiaries together so they can learn how to be more sustainable, how to share tips, and how to be profitable. And that's excellent.

But when I try to find a web presence about the sustainability summit, I wasn't able to find it. And that's where I think that we can do a better job in Berkshire Hathaway when it comes to communication with our shareholders and with the outside world about the good work that we're doing.

A simple solution to that would just be to create a link on the Berkshire Hathaway website to sustainability that people could click on and go and find out about initiatives like the sustainability summit. And from there, perhaps, they could click on to go to the subsidiaries that have a web presence about sustainability to see what they're doing.

In doing so, we give a window to the world where they can see what we're doing to make a difference that might inspire other corporations to follow the example. Or perhaps a college student working on a paper would read about it and think that that is a good business model, that that's something that he wants to bring forward when he goes into his career.

There is a Facebook page called "Berkshire Hathaway's Sustainability" that will be available for shareholders and the outside world to look at to see research and to encourage each other to learn how we can support sustainability practices. And that is available now.

I greatly appreciate this opportunity to speak with you today and to clarify what my proposal is. And I do greatly applaud and appreciate all the work that you're doing on behalf of our corporation and the world. Thank you so much.

WARREN BUFFETT: And thank you. (Applause)

Many of the managers — a great many of the managers — of Berkshire are here and are listening to you. And I suspect that a very high percentage of them agree with what you're saying. Whether they — what they do in terms of web pages and so on, in our view, is basically up to them.

But I can tell you that one leading proponent, as you mentioned, was Greg Abel, who until recently was running Berkshire Hathaway Energy and now is vice chairman. And Greg may want to say a few words on this, too. But I can assure you that the managers are listening to you.

GREG ABEL: Thanks, Warren. Yeah, we do everything that was touched on. I'll just maybe add a few points for our shareholders. Obviously, sustainability is a priority for Berkshire and each of our operating subsidiaries. It was highlighted that a number of them have sustainability reports. But I would go beyond that. If you go to our various companies' websites, you'll see specific actions they're taking relative to sustainability. So it may not be summarized in a specific report, but that type of information is available.

I can also add that when you think of the Berkshire Hathaway Energy Corporation, we're trying to lead by example with support from Warren, Charlie, Walter Scott. I'm happy to report, if you look at where our energy production is right now at the end of 2017, 50 percent of our energy that is produced and consumed by our customers comes from renewable energy.

That's something we're strongly communicating across the U.S. and globally as an example of what can be done in our industry. And I'm happy to report by the end of 2021, 100 percent of the energy utilized by our customers can be met through renewable energy in Iowa.

So I understand the concept of sustainability. We're working across our organizations to share best practices. But as Warren highlighted, it really resides in each of our companies. But it will be encouraged and you'll continue to see great results. Thank you.

WARREN BUFFETT: Thank you. (Applause)

The motion is now ready to be acted upon. If there are any shareholders voting in person they should now mark their ballot on the motion and deliver their ballot to one of the meeting officials in the aisles.

Miss Amick, when you're ready you may give your report.

BECKI AMICK: My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 67,282 votes for the motion and 544,256 votes against the motion.

As the number of votes against the motion exceeds a majority of the number of votes of all Class A and Class B shares properly cast on the matter, as well as all votes outstanding, the motion has failed. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

WARREN BUFFETT: Thank you, Miss Amick. And I would say Miss Cathcart, our managers heard you. I mean, you have had an impact and I appreciate what you have done.

Walter, I guess we're now ready for a motion?

WALTER SCOTT: I move that this meeting be adjourned.

WARREN BUFFETT: Is there a second?

RON OLSON: I second the motion.