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INVESTMENT ADVISORS

Berkshire Hathaway - May 2019 Annual Shareholders Meeting

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For the 14th consecutive year I and our team, including my wife Peggy, son Jonathan, Scott Schwartz and Michael McDonald from Spectrum, as well as my nephew Tom Marshall, Managing Partner of Helgesen Industries, journeyed to Omaha. This year's event marked the 54th anniversary of the Berkshire Hathaway (BH) Shareholders Meeting. The shareholders meeting has grown from 30 attendees to over 42,000. In addition, as of two years ago, viewers can now share the experience on the Internet. The CHI Health Center was packed with over 25,000 people, plus four additional rooms with large screen TVs where shareholders could view Warren Buffett and Charlie Munger, his partner for 60 years. BH just renewed a 20-year lease in the Kiewit Building, located in downtown Omaha, where BH has been headquartered on the 15th floor since 1962. There are 26 employees at the headquarters, which oversees 390,000 employees in over 80 companies.



Warren will turn 89 on August 30 and Charlie is 95; both are as witty and informative as ever. Charlie (with help) sat down on stage next to Warren where they had plenty of See's Candy peanut brittle to munch on, along with a few cans of Cherry Coke, to maintain their energy for five hours. As always, we stood in line at 6:30 a.m., with the doors opening at 7:30 a.m., to make sure we got a seat. The meeting began with a 40-minute video featuring humorous skits from people like Bill Gates, Tiger Woods and Tim Cook from Apple, often reflecting on the habits of Warren and Charlie in a comical way. The film also featured Berkshire's 80 managers, with Alicia Key's singing to the tune of "New York, New York", replacing the words with "Berkshire, Berkshire". The room was electric! A humorous skit in the video featured Charlie at 95, being asked, "Why is Warren richer than you are?" Charlie's answer: "Why was Albert Einstein poorer than I am?"

Warren and Charlie answered approximately 50 questions over five hours with a one-hour break for lunch. During the break we were able to visit many of BH's companies in the exhibit hall, as

well as enjoy a Dairy Queen Dilly Bar. The following are answers to some of our favorite questions, along with a summary of Warren's annual letter to the shareholders:

The first question always comes from Warren's friend Carol Loomis, former Editor at *Fortune* magazine and author of *Tap Dancing to Work*, a collection of *Fortune* magazine articles about Warren. As she was asking her first question, you could hear both Warren and Charlie popping cans of Coke near the mic, almost like a commercial.

Q: When are you considering purchasing more Berkshire Hathaway stock and at what price?

WB: We repurchased a billion of BH stock in the first quarter 2019, after the market corrected. We anticipate purchasing more BH stock in the future, assuming we do not find any other opportunities, but we are not in a rush. We will buy our own stock aggressively if the price is right.

CM: If our BH stock was selling at a 25%-30% discount, we would be purchasing a lot more.

Q: Why not invest all that cash in the S&P 500 Index? Shareholders asserted that Berkshire would have expanded its cash pile to \$155 billion from \$118 billion if it had kept the cash in the S&P 500 Index vs. US Treasury Bills.

WB: It's a perfectly rational observation.

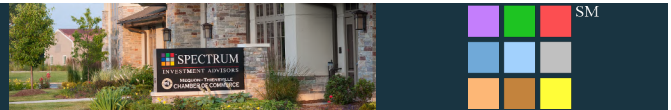
Warren expressed a willingness for BH to change its investment strategy around its excess cash in the future. He said it's something his successor may want to employ. Opportunities tend to come in clumps when other people don't want to deploy cash. The duo believes that cash in-hand will be well deployed and long-term, will perform better than an index fund by taking advantage of likely great opportunities in the future.

CM: It's not a sin for such a large company to be strong on cash, and we are not going to change. Buying the S&P 500 with \$100 billion is harder than buying with only \$1 billion. We watched Harvard plunge into the market at the wrong time. In the next 20-30 years there will be 2-3 times (about once every 10 years) when we will deploy cash in a big way. We wait for the fat pitch. You can turn any investment into a bad deal if you pay too much.

Q: Does BH's Amazon purchase indicate a shift away from value investing? One of BH's two investment managers, Todd Combs (48) or Ted Weschler (57), recently invested in Amazon, the amount of which will soon be reported.

WB: Warren disputed that the Amazon investment wasn't value investing. Both managers are value investors, who go through the same calculations they would if they invested in say, a bank. I think our two investment managers will be right more often than they are wrong. I don't second guess their decision to buy Amazon. Jeff Bezos, at Amazon, is a miracle worker. We thought he could never pull it off.

CM: We give ourselves a pass for not catching on to Amazon earlier, but we are harder on ourselves for missing out on Google. We blew it. We had insight on Google because we were using Google for Geico and saw how well it was working. We sat there sucking our thumbs. BH also owns 252 million shares of Apple (5.6% of the company).



Q: Mr. Buffett, you have selected both Ajit Jain, 67, and Greg Abel, 57, to be your successors. Why aren't the two of them on stage with you and Charlie today?

WB: It's a good idea to bring Ajit from Geico and Greg from Berkshire Energy to the stage, but not our two investment managers (Todd Combs and Ted Weschler) because BH is not licensed as an investment advisor.

CM: The answer is no. We don't have analytical committees making decisions at Berkshire. I think you will just have to endure us for a long time to come. BH provided Occidental Petroleum \$10 billion of capital in exchange for 100,000 of preferred shares of Occidental, paying an 8% annual dividend, plus warrants to buy \$5 billion in Occidental common stock, to help them buy Anadarko Petroleum. *WB and CM were contacted Friday by Occidental and deployed \$10 billion on Monday, 3-days later. The advantage of not having to answer to a committee.*

Q: How did you know you were ready to manage other people's money?

WB: I started with seven investors in 1956, some of which were family members. When managing other people's money, the important thing is to make sure the customer's risk tolerance aligns with yours, so that **when the market goes down, they don't panic and are willing to buy more**. The one thing we are certain of, is that Charlie and I love what we do.

CM: It isn't that easy to be a great investor. You understand human behavior better as you get older, which is learned through experiences. That helps us to manage money.

Q: Your annual shareholder letter seems to have less detail about individual companies at Berkshire, Why?

WB: Our letter is purposely shorter. We write it as if my sister can understand it if she is reading it. We are not writing it for analysts, but for shareholders.

CM: I don't want that much detail, just give me the big picture.

Q: Your thoughts on investing internationally.

WB: We would love to put more money in the UK but are not in a rush. We are hoping for a deal in the UK regardless of how Brexit works out. **Brexit was a big mistake**. Regarding China, it really makes sense for the US and China to get along. Hopefully cooler heads will prevail. We have a bias toward investing in America.

CM: As to Brexit, I'm glad it's them and not us.

Q: From a 13-year-old from San Francisco: How can kids develop skills at delaying gratification?

WB: Saving money over spending money isn't always the best course of action. A lot can be said for doing things that bring joy, rather than saving money every time. I still spend two or three cents of every dollar (*said with laughter*). Don't go overboard on delayed gratification.

The following is a portion of this year's 2019 BH Letter to the Shareholders from Warren

The American tailwind. On March 11, it will be 77 years since I first invested in an American business. The year was 1942, I was 11 and went all-in, investing \$114.75 that I had begun accumulating since age six. When I bought three shares of Cities Service preferred stock, I became a capitalist. In that spring of 1942, the US and its allies, were suffering heavy losses in a war that we had entered only three months earlier. Bad news arrived

daily. Despite the alarming headlines, almost all Americans believed on March 11, 1942 that the war would be won. Three months later, the US won the Battle of Midway on June 5, 1942, which was the turning point of the war in the Pacific Theater.

Early in our history, our country was tested by a Civil War that killed 4% of all-American males, and in the 1930s, America suffered from the Great Depression, a punishing period of massive unemployment. Since 1942, we have had seven republican presidents and seven democrats. Our nation has experienced viral inflation, a 21% prime interest rate, several costly wars, a collapse of home values, and a paralyzing financial panic. Today it is now all history.

Those who regularly preach doom because of any of the above news or government budget deficits, (as WB regularly did for many years) might note that our country's national debt has increased roughly 400-fold during the last 77 years. That's a 40,000% increase. Suppose you had foreseen this increase and panicked at the prospect of runaway deficits. To protect yourself, you might have opted to buy 3.25 ounces of gold with your \$114.75 in 1942. If you did, you would now have an asset worth \$4,200, less than 1% vs. if you invested in an index of stocks. If I could have invested \$114.75 in the S&P 500 Index fund with dividends in 1942, my stake would have grown to \$606,811 by January 31, 2019. At Spectrum, we suggest investing in a combination of index funds as well as actively managed funds, the best of both worlds.

During the two 77-year periods prior to 1942, the United States had grown from four million (or about ½%-1%) of the world's population, to the most powerful country on earth. Today the Federal Reserve in America estimates our household wealth is at \$108 trillion, an amount almost impossible to comprehend. **If our forefathers would have consumed all of what they had produced and not delayed gratification, there would have been no investment, no productivity gains and no leap in living standards.** Over the next 77 years, the major source for gains will almost certainly be provided by the American tailwind. We are lucky – gloriously lucky – to have that force at our back.

Charlie and I happily acknowledge that much of Berkshire's success has simply been a product of what I think should be called the **American Tailwind**. It is beyond arrogance for American businesses or individuals to boast they have 'done it alone'. The tidy rows of simple white crosses at Normandy should shame those who make such claims."

As we approach the 75th anniversary of D-day on June 6, 2019, Spectrum wanted to honor those veterans who have served our country by displaying 40 framed photos and stories about 55 veteran soldiers that are related to either Spectrum employees and/or their spouses (see below). This spans from the Revolutionary War, the Civil War, WWI, WWII (including D-day), Korea, Vietnam and Afghanistan. We can't wait for next year's BH meeting, some people call it an MBA in a day. Thank you for your loyalty and God Bless America.

