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Berkshire Hathaway - May 2020 Annual Shareholders Meeting

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To keep our streak going, Jonathan, Katherine and I viewed the Berkshire Hathaway Annual Shareholders meeting for the 15th consecutive year. Due to COVID-19, we did not attend this year's meeting (nor did anyone else) but rather viewed it live stream on Yahoo Finance. The meeting has been live-streamed on Yahoo Finance for the past five years, due to the build up of attendance at the CHI Health Center (formerly Quest Center) in downtown Omaha, Nebraska. The meeting has consistently drawn more than 40,000 attendees from around the world each year, including from Europe and China.

This live stream format was different in so many ways, even though it was held on the same stage in front of an empty arena. For starters, Warren mentioned he hadn't had a hair cut in seven weeks. Normally six panelists and members of the live audience take turns asking a total of 50-60 questions over a 5-hour period. This time only Becky Quick from CNBC asked Warren questions. She asked the questions from a pool of over 2,500 emails that were submitted before and during the conference. The meeting included **Warren Buffett** (89), but not his long time partner of over 50 years, **Charlie Munger**. Charlie (96) is in good health, but chose not travel to Omaha from his home in Los Angeles. In Charlie's place was **Greg Abel** (57), a 20-year manager of one of Berkshire's largest subsidiaries, Berkshire Energy. Greg shared the stage with Warren, but was seated at a separate table, complying with social distancing.

What didn't change was the impressive display of Warren's energy at 89 years old. He fielded unrehearsed questions for about three hours. The meeting even included Charlie's favorite expression. When Warren asked Greg to add a comment to his answer to the first question, Greg responded, "I have nothing to add," just like Charlie.

We were all amazed at Warren's perseverance for three hours, but you could tell he missed the humor from his long-time side kick, Charlie. My wife Peggy, who watched the live stream and attended last year's meeting said, "This is not as much fun without the **experience** of actually being there with 40,000 people, opportunities for shopping, and $1 Dairy Queen Dilly Bars" (BH owns Dairy Queen).

In the past, after waiting in line for an hour to get in, the meeting would typically start at 8:30 a.m. with a 45-minute video highlighting Berkshire Hathaway's 90 companies. This time, there was no video. Instead, Warren gave a 90-minute slide presentation on the history of our country's economy, which was followed by three hours of Q&A from shareholder emails. Here are the highlights from his marvelous US history lesson:

In 1789 our country had 3.9 million people, with roughly 700,000 of them being slaves (15% of the population). At the time, about 0.5% of the population of the planet lived in 13 states. Over the next 231 years, the growth of the US far exceeded anybody's dreams. In 1789, the total wealth of our country was about $1 billion. In 1803, President Thomas Jefferson engineered the Louisiana Purchase from France for $15 million. It was 828,000 square miles for a price of about $0.03 per acre, representing 25% of the acreage of the lower 48 states. In the last 231 years our nation has increased to $100 trillion of household wealth, representing a return of $100,000 for every $1 in 1789.

In November 1863, at the time of Lincoln's Gettysburg address, our nation was young, at only 74 years old, with 4 million slaves. In 1861, there were 16 million males in our country, ten million of those men were between the ages of 18 and 60. During the Civil war, 6% of those men (618,000) were killed. Today, losing 6% of men in that age group would amount to 4,000,000 lives.

On September 3, 1929, during the "Roaring Twenties", the Dow Jones was at 381.17. It had been a great time with new developments in autos, air travel, appliances and telephones. By November 13, 1929, just over two months after the peak, the Dow dropped to 198.69, a decline of 48%. Warren's father, Howard, was a 26-year-old stock broker at the time. His wife gave birth to Warren about nine months after the crash on August 30, 1930. At that time the Dow had recovered about 20% from the low to 240.42. But by July 1932, the Dow dropped to just 41.22, meaning that $1,000 invested on Warren's birthday was worth just $170, a loss of 83%.

Warren said the best thing that came out of the Great Depression was the FDIC, which started on January 1, 1934 after 4,000 banks failed. If we would have had the FDIC in the 30s, it would have been a much different outcome. The FDIC has not cost the American taxpayer a dime. All expenses are covered by premiums paid by member banks. Warren said the Depression lasted a lot longer in the minds of people than in actuality. An example of that is, my father Dominic lost $500 during the Depression because his local bank failed. That experience made him extremely conservative until he was 58 years old, when he almost died, which finally jolted him out of his psyche. Our nation didn't recover from the Depression until the spending on WWII. On January 4, 1951, the Dow was 240.85. It took more than 20 years for investors to get back to even.

In 1954, the Dow was at 280, finishing the year at 400, the best investment year Warren ever had. Warren and his Columbia University Professor, **Ben Graham**, were summoned to congress in Washington DC with 20 of the smartest economist in the country to determine if the market was going down again (like the 30s). In his congressional testimony, Ben Graham said, "the Dow is high, but not as high as it will be".

The purpose of this history lesson is to remind us of the strength of our country. We have overcome major obstacles in the past, such as the Civil War and WWII, due to the ingenuity of our citizens and our wealth of natural resources. Warren calls it **The American Tailwind**, which he started riding at 11 years old when he bought his first stock in 1942.

The following are Warren's and Greg's answers to some of our favorite questions from Becky Quick and Berkshire shareholders:

Q) You and Charlie have said that every decade or so the stock market erupts where buys will be so good, it's like raining gold. When that happens, you both suggest collecting the rain with buckets versus teaspoons. Why aren't you buying when you have $124 billion in cash?

WB: In the past when there was a major market correction, we didn't chase deals, but rather waited for the phone to ring like it did in 2008-2009. We made buys in 2008-2009 because we didn't have much competition. In hindsight, we bought too early. We should have waited another four or five months. This time around, the phone rang, but from the wrong companies that we were not interested in. The Federal Reserve, with $2.3 trillion and the Federal Government, with $2 trillion, beat us to the punch in late March. They acted with unprecedented speed and determination to provide support. (Berkshire Hathaway did buy Kroger and the S&P 500 Index). You should buy stocks when you are financially and psychologically prepared. In Berkshire's 54-year history our stock has been down by 50% three times, but in all three cases I never sold one share. (Warren doesn't expect major banks to have significant problems because they are in much better shape than they were during the financial crisis. Warren said, **"I have never felt fear financially"**).

Q) If you couldn't buy anything else, why not buy back Berkshire stock?

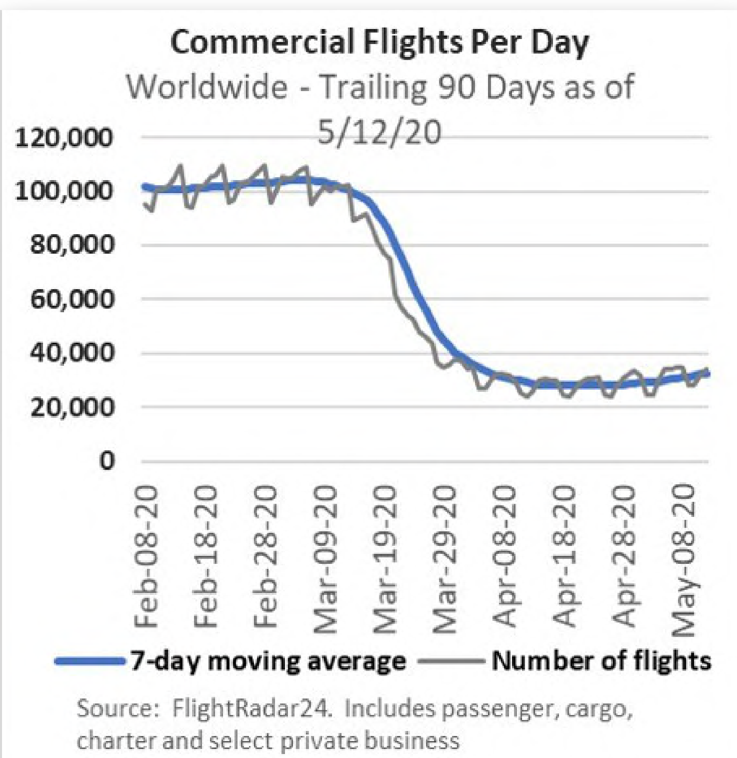
WB: We did buy back $1.7 billion of Berkshire stock this past quarter. This pandemic is unknown in its final outcome. The range of probabilities are still extraordinarily wide. In 2008-2009, the US economic train went off the tracks. Today, the US economic train was pulled off the tracks and set aside. We look at this as an experiment that has never been done before. In school I was pretty good in economics but lousy in biology, so its hard to predict the outcome.

Some buybacks in this country are really stupid. Using every ounce of your balance sheet to buy back stock is not prudent. Companies make a lot of mistakes buying back stock at the wrong time. We favor companies that take care of requirements for growth and maintain a sound balance sheet with a **margin of safety**. And if they find their stocks selling below what the business is worth, I think they are making a big mistake if they don't buy back their stock.

(In particular, he cautioned against buying stocks on margin and building up too much debt where you end up at the mercy of the "kindness of strangers").

Q) Can you tell us about your decision to sell your stock positions in the four major airlines?

WB: I was wrong about the business, which is a very difficult business to run. Airlines have changed in a major way when people are told not to fly. I hope I am wrong again, because through no fault of their own, each airline will have to borrow billions to recover and paying those loans back will take a long time. If the airlines come back to 70-80%, you will have too many planes. For that reason, we have sold our entire interest in all four major airlines. When we decide to sell a stock, we generally like to sell all of it, versus part of it, with few exceptions.



Source: FlightRadar24. Includes passenger, cargo, charter and select private business

Q) What do you think of the job Federal Reserve Chairman **Jerome Powell** is doing?

WB: On March 23, 2020 fortunately we had a Federal Reserve Chairman who knew what to do, based on what we learned in 2008-2009. Companies rushed to draw down their lines of credit, which created a liquidity crisis. It disorganized the market. Fear is the most contagious disease you can imagine. I've always held former Fed Chair Paul Volker at the top of the list. I would put Jay Powell on the same pedestal as Paul Volker. The Fed operated with unprecedented speed to save our economy. In the Great Depression, the Fed stood by and did nothing.

Q) Are any of your 90 companies having financial difficulties?

WB: In January 2020, we sold our newspaper business, but are financing the buyer to give them flexibility. One of our companies (Marmon) in turn owns 97 companies. A couple of these companies are having issues. We are not in the business of subsidizing companies and will not hold a company that's continually losing money. None of our companies have applied for or taken PPP stimulus loans.

Q) Who do you look at as your successor?

WB: I look at our team of **Greg Abel** sitting next to me who has managed our non-insurance operations with over 300,000 employees since 2018 and led Berkshire Energy since 2008. **Ted Weschler** and **Todd Combs** have been our two asset allocation managers for the past seven years. Greg, Todd and Ted are all great managers that could make a good call. Berkshire has three core businesses: Geico (insurance), BNSF (railroads), and Berkshire Energy and they are all in decent shape and will continue to produce cash.

Greg Abel: Without Warren and Charlie at the helm, I don't see the culture of Berkshire changing. (Greg Abel is vice-chairman of the non-insurance operations and **Ajit Jain** (68) is vice-chairman of the insurance operations. Greg Abel lives close to Omaha and oversees BNSF and Berkshire Energy. The fact that he was sitting next to Warren at this year's meeting may be an indication that he is a likely choice).

Q) Give your thoughts on investing in the S&P 500 Index.

WB: When I die, I have instructed, in my will, to invest 90% of proceeds in the S&P 500 Index because it is so hard to beat year-after-year, with low expenses. (At Spectrum, we suggest investing a portion in the S&P 500 Index along with active management to get the best of both worlds).

Q) Will the US Government default on its debt?

WB: No! If you print your own currency, you will not default on your debt. Countries that don't print their own currency, like Argentina, Spain, Italy and Greece, could have a problem. Our nation's debt will likely never be paid off, but it will be refunded with our countries growth and debt carrying capacity.

The legendary investor at age 89, demonstrated yet again at this year's meeting that he is still very sharp mentally. Despite the coronavirus and not knowing how or when the economy will recover, he remains optimistic about the future of the US economy. Recognizing that over 75,000 people have died, compared to the Civil War and WWII, Warren said we have gotten through worse. Both Warren and Charlie are in good health and are already making plans to host next year's 55th Annual Berkshire Shareholder Meeting with 40,000 shareholders in Omaha the first weekend in May, 2021. We are looking forward to being there and as each year passes by, each meeting becomes more precious.

Warren finished the meeting with this farewell: "I hope we don't, but we may get some unpleasant surprises. We're dealing with a virus that spreads its wings in very unpredictable ways. The day we develop a vaccine is the day we can finally begin to fully recover. There's all kinds of possibilities, but I've definitely come to the conclusion, after weighing all that we are experiencing: never bet against America. We'll see you next year and we'll fill this place."