



The Woodstock of Capitalism

James F. Marshall
President

Jonathan J. Marshall
Sr. Investment Analyst

For the fifth consecutive year, Jonathan and I along with the Spectrum Team of Manuel Rosado, Sam Vanden Heuvel, John Schaezel and David Marshall embarked on our annual pilgrimage to Omaha, Nebraska. Our group also included Gary Vanden Heuvel (Sam's father, President of the BLC Community Bank in Little Chute, WI) Gary's son Casey and a few of Gary's Appleton area business associates. Jonathan and I met Sam Vanden Heuvel at last year's Berkshire meeting. Sam worked as analyst for Capital Markets in Milwaukee for three years. At last year's BH meeting, Sam took 16 pages of notes on comments from **Warren Buffett**. Like his father, Sam has the passion for this business, so we hired him as an analyst at Spectrum in October of last year.

This year's **Berkshire Hathaway Shareholder meeting** was again attended by over 40,000 people including over 600 attendees from foreign countries. In comparison, the average annual S&P 500 company shareholder meeting struggles to get 400-500 people to attend.

Our party again had the good fortune to experience dinner at Gorat's (Warren Buffett's favorite steakhouse). It is right out of the 1950s and run by the fourth generation of the Gorat family. It is a highly recommended destination for anyone visiting Omaha. Debbie (Gorat) Branecki, owner of the restaurant, says when Warren Buffett takes a seat at a table in their restaurant, he's never demanding, but simply requests "I want to sit with my back to the wall". Debbie also said Warren still uses the penny jar for change when he pays his bill.

We also experienced visiting Borsheim's Jewelry (a BH company) with close to 20,000 shareholders. They call it "Christmas in May" where major jewelry purchases were made by BH shareholders. The "crown jewel" at Borsheim's was a diamond pendant worth \$7,000,000 retail. There were also glass cases of watches worth \$15,000 to \$35,000 each. It was like spending a day at Disney World.

But of course, the main event was the BH shareholder meeting, which started at 8:30 am and finished at 3:30 pm on Saturday, April 30, 2011. **Warren Buffett** (80) and **Charlie Munger** (87) once again hosted the meeting with a very simple format: One table, two chairs, coffee and water (they apparently lowered their consumption of Cherry Coke) and a big box of See's Candy Peanut Brittle. Berkshire Hathaway owns See's Candy.

Warren and Charlie answered questions from the audience for over five hours with only one break. For two people at age 80 and 87, that alone was remarkable. They both displayed a high level of energy at the meeting. We think it was the See's Candy Peanut Brittle. The session starts each year with a 40 minute video. Significant to this year's meeting was a quote from Warren Buffett at the end of the video where he states to a House of Representatives committee in 1991 regarding Soloman Brothers and his Berkshire Hathaway employees:

"Lose me money and I will be understanding, lose a shred of reputation for the firm and I will be ruthless".

Following the video, Warren Buffett started out the meeting expressing a very positive attitude about our country's economic recovery. He said, of BH's 70 companies, each company is showing quarter over quarter sales and profit increases, except for any BH companies related to the housing market. He indicated the housing recovery is taking longer than anticipated, but when it starts, that's when you will see a major improvement in unemployment.

As Warren Buffett states, may I have the first question please:

Why did David Sokol (BH manager of Mid America) buy such a large quantity of stock in Lubrizol just prior to BH acquiring the company?

WB David Sokol spent 11 years at BH and built our Mid America Energy subsidiary, whose focus is on windmills and energy related businesses. Ten years ago we presented David a bonus structure of \$50,000,000 and \$25,000,000 to his #2 at Mid America, Greg Abel. David said instead of 50 to me and 25 to Greg, let's keep the bonus even at \$37,500,000 each (they hit their #'s). David Sokol's income at BH last year was \$24 million. *By the way, Warren's salary is still \$100,000 per year.* Why would a man turn down \$12,500,000 and yet ten years later try and make \$3,000,000 on a questionable stock purchase? I don't understand it, it was inexcusable and inexplicable. *Warren Buffett took the high road and was complementary to what David Sokol did for Berkshire Hathaway.*

Why didn't you and BH show more anger regarding David Sokol's stock purchase in your March 30, 2011 news comments?

WB When we write an email or a newsprint article, we never write it in the heat of anger. We always write it after we cool off.

CM You can always tell a guy to go to hell tomorrow if it's such a good idea.

Warren Buffett was asked about Mid America Energy's plans to build a nuclear plant in Iowa.

WB I think nuclear power is an important part of the world's equation in dealing with its long-term energy problems. I think it's safe and I don't think it's going away in the United States because of the circumstances of the Fukushima nuclear power plant.

CM There have been a lot more people that have been hurt or killed in our nation's coal mines than in any of our nuclear plants. A nuclear plant built in Iowa is going to be much safer than a plant built anywhere else in the United States. If a tsunami hits Iowa, that will be one hell of a tsunami.

What are your thoughts on inflation and the US dollar in this country and which BH companies do the best and worst during higher inflationary periods?

WB The US dollar will likely lose value over time but other currencies will also. If you have to place a bet, bet on inflation in the

future, which is good for our economy as long as it doesn't get out of hand. Inflation has not destroyed us, we've adapted pretty well. A dollar from the time WB was born in 1930 is worth \$.06 today. The best performers will be the ones that need little capital, See's Candy, for example, has pricing power where we have been able to raise prices and create higher revenues over time to keep up with inflation. The worst kind of business to have during periods of inflation is a business with tons of inventory and a lot of receivables.

What are your thoughts regarding investing in gold?

WB If you reach in your wallet and pull out a dollar, the back of the dollar says "In God We Trust". That is really false advertising. It should say "In Government We Trust". God is not going to do anything about the dollar bill if the government does the wrong thing. Any currency related investment is a bet on how the government will behave. If you live in Zimbabwe and decided to make currency investments, your family would have left by now. In 1990 it took 1.47 Zimbabwe dollars to buy one American dollar. Today, it takes over 1 trillion Zimbabwe dollars to buy one American dollar due to massive inflation.

Gold is a currency related investment. If you took all the gold in the world and put it in one spot you would have a cube of gold 67' x 67' x 67' worth about \$8 trillion. But what would you do with it? You could polish it, fondle it, but it doesn't do anything.

Rather than own all the gold in the world, you could own all the farmland in this country plus the equivalent of 10 Exxons and still have a trillion left over for spending money. I think it would be a lot more fun. When we started out at BH in 1965, gold was worth \$35 an ounce and today is \$1,541 an ounce. I think we've done a little better at BH. *Class A shares at BH are now worth \$121,449 as of May 10, 2011.*

CM Investing in commodities (rather than companies) is investing in something that only goes up if the world goes to hell. It doesn't seem rational.

With our nation's potential debt, do you think it's right to keep raising our debt ceiling?

WB It would be ridiculous not to raise the debt ceiling. The US debt capacity is growing.

CM As long as we can continue to print our own currency (unlike Greece), we will be ok as long as we can find investors in the US dollar.

If you could live another 50 years and invest in a sector, what sector would it be?

WB I would say technology, but I don't have the skills to pick technology stocks. It's hard to pick winners – but the winners in technology are great. (A lesson in knowing what you don't know).

CM My choice would be energy combined with technology as the world searches for alternative energy sources.

Who influenced you the most in your development years?

WB My father and Ben Graham, my economics professor at Columbia Graduate School of Business.

Warren Buffett's father, Howard, was a stock broker in 1931 in Omaha, and encouraged WB to get into the business. Ben Graham wrote WB's favorite book "The Intelligent Investor" in 1949. WB read it in 1950 when he was 20 years old. The book currently is in its 4th edition.

Did anyone at anytime try to convince you not to invest in stocks?

WB My future father-in-law, William Thompson, in the 1950s said I should not invest in stocks because the Dow Jones Industrial

Average was above 200 points and was unlikely to increase. *Warren Buffett returned to Omaha after two years of working for Ben Graham in New York in 1956 and eventually started Berkshire Hathaway and has outpaced the stock index, which stands at 12,801 as of April 30, 2011. WB said that over the next 100 years, there will be 20 or so poor years in the market (approximately once every 4-5 years) but 80 or so average to good years, a good reason to invest in the stock market for the long-term.*

One hundred years from now, what do you want to be remembered for?

WB A teacher. My teachers were my father and Ben Graham.

As WB's father and Ben Graham have taught WB, Mr. Buffett also desires to spend his time teaching others, not only about investing, but about values and life. After 40 years, he still lives in the same house on Farnam Street in Omaha. He works on Farnam Street, 18 blocks away. The third wealthiest individual in the world still drives his own car to work each day and has not engulfed himself in material possessions.

CM I want to be remembered as slightly worn and wisely used.

Do you have any advice for young people so they can chart their own course?

WB Read all you can as early as you can and then take action on what you have read. Improve your skills, especially your communication skills. I have one diploma hanging in my office. It's a diploma from a Dale Carnegie Sales Course I took years ago to sharpen my communication skills. It cost 100 bucks.

If you could pick a country to be born in today, what country would it be and when?

WB The United States of America. I cannot think of a better time to be born in this country than right now. I don't see how anybody can be other than enthused about our country. The past 100 years has been the most extraordinary economic period in the history of the world, largely because of the positive influence of the growth of worldwide capitalism. We have a system that works even though it gets gummed up occasionally. The power of capitalism is incredible. In the next 15-20 years, the world will change so much it will be unrecognizable.

Matt Rose, CEO of Burlington Northern, which was acquired by BH in February of 2010, added further optimism in an interview after the meeting. Matt indicated Burlington Northern's sales revenues were up 20% in 2010. He said, "I'm very, very bullish about the recovery" (*Omaha World Herald, 5/1/11*).

I think my brother David said it best about his first visit to Omaha. David said, "My wife, Francine, and I sit in our house watching the negative commentary from Fox News, Glenn Beck and Sean Hannity. After hearing all that, it is refreshing to hear someone like Warren Buffett talk positively about our country. It makes me feel good for the sake of our grandchildren."

At Spectrum, we "enjoyed the ride" to Omaha. We wanted to share it with you.

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