

# Woodstock of Capitalism



# SPECTRUM

## INVESTMENT ADVISORS

### Omaha, Nebraska - May 2018

## Berkshire Hathaway Annual Shareholders Meeting

**James F. Marshall**  
President

**Jonathan J. Marshall**  
Chief Investment Officer

For the 13th consecutive year, I, along with Jonathan, Mike McDonald and Scott Schwartz joined Gary VandenHuevel, retired President of BLC Community Bank, his son Casey, Casey's friend Scott Lorge and Reg Pfeifer, a Real Estate Securities portfolio manager at Thrivent, for our annual pilgrimage to Omaha. This year's event marked the 53rd anniversary of the Berkshire Hathaway (BH) Shareholders Meeting. The shareholders meeting has gone from 30 attendees to 42,000, over the course of three days, plus viewers on the Internet. The Century Link Center was packed with 25,000 people, which includes an additional four large rooms over the exhibit hall where shareholders could view Warren Buffett and Charlie Munger on large screen TVs.

Warren, 87 and Charlie, 94 were as witty and informative as ever, answering questions for over five hours, with a one hour break for lunch. People start lining up at 4 a.m., with the doors opening at 7 a.m. The atmosphere at the beginning of the meeting was electric, beginning with a humorous 40 minute video on the 80 BH companies. In five hours of answering over 50 questions, posed by Becky Quick from CNBC and Carol Loomis, former editor-at-large at *Fortune* magazine and editor of Warren's annual BH shareholder letter, Warren only had to have one question repeated; his mind is still that sharp.

What always gives us a chill down our spine (in a good way) is the end of the video featuring Warren's 1991 testimony before Congress, when politicians were investigating a bond trading scandal at Salomon Brothers, where Warren owned 12%. Warren was called on to sort out Salomon Brothers after the scandal broke. In that testimony he states, **"The spirit of compliance is more important than the words of compliance." He reminds people to act with integrity by explaining that you should be prepared for your actions today to be on the front page of tomorrow morning's newspaper, read by all your family and friends. He closes with, "Lose money for the firm and I will be understanding; lose a shred of reputation for the firm and I will be ruthless. I welcome your questions."**

Every year it becomes harder and harder for Charlie to walk out from behind the curtains, but once helped into his chair, he is mentally ready to go. Both Warren and Charlie have a can of Coke or Cherry Coke in front of them at the table and a big box of See's Candies Peanut Brittle in between them to give them energy to make it through the meeting.

**What is different this year** is that **Ajit Jain** (66), from GEICO and **Greg Abel** (57), from Berkshire MidAmerican Energy, were both elected to the board of BH as vice chairs. They both appear to be part of the BH succession plan, particularly Greg Abel, because of his younger age.

**Warren is a perpetual optimist when it comes to our country.** His optimism is illustrated in the story he relayed about the week before he got married. His father-in-law, knowing that Warren was an investor, had a one-on-one talk with him and told Warren, "You are going to fail at what you're doing because the Democrats are going to take over and ruin this country." Warren replied that in his career, there have been 14 US

Presidents, seven Republicans and seven Democrats. Regardless of who is President, what wins out is the strength of our country and the continued upward trend of the market, with a few bumps along the way.

Warren opened the meeting with a copy of the March 10, 1942 *New York Times* front page which read, "Foe (Japan) Clearing Path to Australia; Reports 98,000 Give Up In Java". On the left side of the headline it states, "Nazis Set to Get 40 More Warships." The *New York Times* sold for three cents at that time. At 11 years old, after reading such incredibly negative news, Warren asked his father, who was a stockbroker, to buy him three shares of City Service stock with his paper-route money. His first stock purchase. If you would have bought \$10,000 of the (hypothetical) S&P 500 on March 11, 1942, today it would be worth \$51 million. If you would have been scared by the headlines and bought \$10,000 worth of gold on March 11, 1942, today it would be worth \$400,000. Sixty-six years later, on October 16, 2008, during the depths of US economic despair, Warren wrote an editorial in the *New York Times* titled, **"Buy American, I am"** and buy he did. One of his sayings is, **"Be fearful when others are greedy and greedy when others are fearful."**

The following are answers to a few of our favorite questions, with 18 questions from members of the media, 18 from investment analysts and 18 from the audience. Some of those audience questions were asked by shareholders from China who flew to the US just for the meeting. Warren and Charlie, regardless of how complex the question is, answer it in a very simple, down home, easy to understand manner.

*The first question was from Carol Loomis, author of Tap Dancing to Work, a collection of Warren Buffett articles published in Fortune magazine between 1966 and 2012.*

#### **Warren, you have had two jobs, overseeing your managers and investing BH capital. Are you semi-retired?**

**WB:** Greg Abel, manager of BH Energy and Ajit Jain, manager of GEICO, are both overseeing BH managers, on the BH board and are now both vice-chairs. **Todd Combs** (47) and **Ted Weschler** (56) are both managing about \$12-\$13 billion at BH. Together they manage about \$25 billion, but I am still responsible for the \$300 billion of investments.

**CM:** When it comes to investing, Warren is very good at doing nothing. He reads, buys and seldom sells.

#### **What is your investment philosophy & tell us about your typical day.**

**WB:** You should buy a stock as if you were buying a farm, an apartment building, or a house. You don't check the price of your farm every day. You are more concerned about the yield (crop) it pays. Today, the US market is operating with the greatest tailwind ever. We have 25 employees in our Omaha office, overseeing 367,000 employees from 80 different companies. I work with a great group of people. We have no committees, no bureaucracy and look at work as a form of play. We have no budget at BH. We're probably the only Fortune 500 company that doesn't. I read five to six hours a day. I like to sit and think a lot. Business problems are easier to figure out, it's the human problems that are the toughest.

**CM:** I think you make better decisions when you eliminate bureaucracy; it's a cancer. We celebrate a lot. It's part of how we get people to work together. Our company is a reflection of Warren and his enthusiasm.



## How often do you talk to your managers?

**WB:** Ajit and I talk frequently about very big pricing issues, but not day-to-day. Ajit calls me, I don't call him. Taking his calls is part of the fun of the job. With some of our BH businesses, I have only talked three to four times to the managers in the last 10 years. Maybe they would have been better off if I didn't talk to them at all. *(laughter)*

## Give us an update on what BH, Amazon and JPMorgan are collectively doing to solve our nation's health care issues.

**WB:** We don't plan to start a health care company. Health care was 5% of GDP in 1960. Today it is 18% of GDP. Our nation's health care cost in 1960 was \$170 per capita. Today it's \$10,000. Health care is a tapeworm for American businesses. Health care is always the other guy's fault. Resistance to change is unbelievable. We are currently trying to find a CEO that has innovative ideas to correct our nation's health care system, which is hard to find. The most important job of a CEO is to find a successor who is smart enough to take it to the next level. Our three companies together are positioned to try and come up with a solution. If we had an easy solution to health care, we would already have done it.

## Is there a win/win for both China and the US regarding trade wars?

**WB:** The US and China will be superpowers for a long, long time. It is just too big and too obvious for two intelligent countries to do something extremely foolish. US exports used to be 5% of GDP. Today, they are 11% of GDP. It's not the worst thing to get goods in exchange for a piece of paper. The one thing to watch is not to let the trade gap get too wide. The president needs to be an educator, much like Roosevelt was with his fireside chats.

**CM:** Either side should not try to win a little bit too much. Both countries are advancing. China was mired in poverty for a long time vs. the US. Starting at a poverty level, China's growth is faster. The US is growing slower and is a more mature economy. I'm confident both countries will not be foolish enough to ruin a good thing.

## What does it take to become successful?

**WB:** Many people can have success with reasonable intelligence, providing that they have terrific passion. Part of being successful is to get people to march in unison, even if they can't see over the hill.

## What are your thoughts on the incentives offered at Wells Fargo?

**WB:** Wells Fargo had the wrong incentives and committed a much greater error by ignoring the issue. All big banks have had issues of some sort over the years. New management is currently correcting the mistakes.

**CM:** Wells Fargo will be even better going forward than they would have if it had never happened.

**WB:** We all do a lot of dumb things in the world. What's important is to do something about it and come clean as soon as you can. At times, Charlie will jab me to do something about it.

## What are your thoughts on acquisitions?

**CM:** The typical acquisition of American companies in the US are leveraged to the gills and seldom have good outcomes. BH acquires companies using cash, not leverage. Reputation is the key to acquisitions.

## Tell us about buying Apple.

*The day before this year's meeting, Warren bought 75 million shares of Apple, based on the suggestion of his two investment gurus, Todd and Ted. BH now owns 5% of Apple, or about 240 million shares, (est. \$43 billion).*

**WB:** All of Apple's products would fit on a dining room table. It doesn't take a lot of capital reinvestment to make the next iPhone. I hope the price of Apple stock goes down so we can buy more. Our goal is to not own more than 10% of a publicly traded company.

*His total recent investment was about \$13.5 billion, which draws down his cash from year-end to about \$104 billion. BH earns \$400 million a week, so*

*it's easy to begin rebuilding its cash position. If Warren really thought today's market was a good buy, he would have bought 320 million shares of Apple vs. 75 million, to get his position to close to 10%.*

## What are your thoughts on cyber insurance?

**WB:** Writing cyber insurance coverage is very difficult. People don't know what they are doing. It's easier to insure hurricanes or earthquakes. We don't want to be a pioneer in cyber insurance coverage. It's early in the game. Cyber is uncharted territory and it's going to get worse before it gets better. Fifteen years ago, cyber was not an issue. We will write our share of cyber insurance, but limit our exposure.

## How about a special dividend to shareholders with all the cash BH has generated?

**WB:** I would someday rather repurchase shares than to pay a dividend. BH shareholders recently voted 47 to 1 to veto paying a dividend. It's very unlikely we would pay a special dividend.

## What will BH look like in 2068?

**CM:** To you youngest shareholders, those of you who sell after we are gone because of some advice from your friends, you will do worse by selling. Don't sell it!

**WB:** When I'm gone, the most important job for my son Howard, as Chairman, along with the Board of Directors and Management team, will be to maintain our BH culture.

*Carol Loomis asked if newspapers are still viable. BH owns 26 newspapers, with the average value dropping 30%, including the Omaha Herald.*

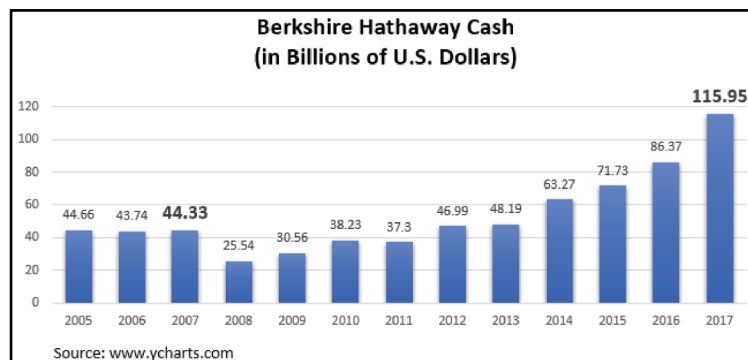
**WB:** With the digital age, the only newspapers who are likely to survive long-term are the *WSJ*, *NY Times* and *Washington Post*, which all have developed viable options in the digital world. Newspapers are losing daily circulation and the decline has not slowed down. There are 1300 newspapers in the US. We need the news to keep people honest. We bought our newspapers at reasonable prices, which collectively today, makes up a very small portion of BH. It's not about the impact on BH, it's about the impact on our society.

**CM:** Circulation is declining faster than we thought. We are going to miss those newspapers terribly.

## Why do you say cryptocurrency is in a bubble?

**WB:** Cryptocurrency is not a productive asset. Normally, non-productive assets (bitcoin) end badly after euphoria wears off. For many, the reason they are trading cryptocurrency is because their neighbor is and they're making money. I would rather buy US stocks.

**CM:** Someone else is trading turds and you decide, I can't be left out. *(laughter)*



**WB:** Every now and then, something peculiar happens in the markets, so you have to be prepared when it happens. We like to keep our minimum cash at \$20 billion, invested in short-term US Government Securities.

**Warren is prepared for the next peculiar thing by accumulating over \$100 billion of cash vs. \$44 billion in late 2007, going into the 2008 correction. Warren seldom sells, he quietly builds cash in preparation for the next correction. We can't wait until next year!**