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Berkshire Hathaway Annual Shareholders Meeting
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For the seventh consecutive year, Jonathan and I, along with our long-time customer, Gary Vanden Heuvel, President of the BLC Community Bank of Little Chute (and father of our own Sam Vanden Heuvel), embarked on our annual pilgrimage to Omaha. We were joined by a few of Gary's Fox Valley friends, Gary's son Casey, my brother David and his son Vince.

This year's Berkshire Hathaway Shareholders Meeting was again attended by over 35,000 shareholders at the Century Link Center (formerly the Quest Center) in downtown Omaha. Our group looks forward to our annual visit to Omaha, much like many of you would anticipate an annual fishing or hunting trip. One of our traditions each year after the meeting is to watch the Kentucky Derby (this year's winner was Orb) at a local pub called Mr. Toad's on Market Street, just down the street from the Century Link Center.

Both Warren Buffett 82, and Charlie Munger 89, seemed as spry as ever with Warren leading the audience in a dance during the Berkshire Hathaway annual video introduction. They both nibble on a two pound box of See's Peanut Brittle (a BH company) which appears to give them enough energy to last through the five hour Q & A with one 45 minute break.

To keep it interesting, the format of the meeting changes a little each year. To spice it up, in addition to questions from a panel of reporters and the audience, Warren invited Doug Kass, a hedge fund manager from Seabreeze Partners in Florida to join the panel of analysts posing questions. Mr. Kass, a short seller, bets against the stock of Berkshire Hathaway and asked some tough, unrehearsed questions.

According to Jason Zweig, it was very unusual in the industry for Mr. Buffett to invite a bear (Doug Kass) to his annual meeting to ask questions freely. In contrast, consider a survey of over more than 500 companies by the National Investors Institute in 2011. The survey found that 80% of companies place limits on who can ask questions during a quarterly earnings conference call. Nearly 25% took questions only from a pre-approved list of callers. In addition, 76% of companies prepared scripted answers to the questions they expected to get (*WSJ* 5/6/13).

With Warren and Charlie, they do not rehearse or know the questions ahead of time, they just sit down at the table and after a brief introduction, ask for the first question and fire away for five hours. It is very similar to sitting around a coffee shop table and listening to two old sages give their advice on investing, as well as life.

The following are answers by Warren Buffett and Charlie Munger to a few of our favorite questions at the meeting:

Doug Kass of Seabreeze Partners made the following statement, ending it with a question: **Howard Buffett (a corn farmer from Illinois) is tapped to become Berkshire Hathaway's next non-executive chairman, when you (WB) no longer hold the post. Berkshire is complex with over 70 separate companies and your son Howard has never run a diversified business and has not made a material stock investment or made a material acquisition. Besides accident of birth, how is your son Howard qualified?**

With Warren's son Howard sitting in the front row at the meeting as a current board member of Berkshire, Warren Buffett answered:

WB: Howard is not assuming the role described. A non-executive chairman does not run the business. His role is to preserve the culture and protect the CEO from making a big mistake, such as installing a key person that is not a good fit for the job and risk upsetting the culture of Berkshire.

Warren Buffett has indicated that he knows who his next CEO will be but is not pre-announcing it. It is likely, the next CEO will be a current manager of one of Berkshire Hathaway's major companies.

CM: It helps to have an objective person sitting in the position Howard will be in.

Doug Kass followed-up by saying, **I challenge you with $100 million, to see who can have the best performance in the next twelve months and we will give half of our fees to charity. Do you accept the challenge?**

CM: Warren, let me answer this. No!!! *We doubt if Mr. Kass will be asked to come back.*

What are your thoughts on our country's rising debt?
WB: This is not our country's toughest hour by a large margin. One of our nation's toughest hours was before the Battle of the Midway during World War II; the last time we had a major debt buildup. As long as our GDP increases at 2% per year, social security and other spending problems will be taken care of. We look at our nation's rising health care costs including Medicare and Medicaid, being a bigger issue, especially with our aging population base.

What is your view on how Ben Bernanke has handled the 2008 market correction?
WB: The amount of deficit spending in the last four years was appropriate to recover from the 2008 downturn. Chairman Bernanke to this point, has done a good job. The economy was so tough in 2008 that even General Electric needed help with a loan from Berkshire Hathaway, acting as GE's last stop. In late 2008, 10 of the greatest words ever spoken by a US President were from George Bush: "If money doesn't loosen up, this sucker is going down."

*Warren Buffett did acknowledge that it will be a "***shot heard around the world***" as soon as it looks like the Fed's treasury buying plan begins to wind down.*

What should I look for in attempting to hire a manager for my company?
WB: Look for a manager that loves what he/she does. You can spot people that love and have a passion for their jobs. Also, look for managers that

have the vision to anticipate things that have never occurred before. A big question to ask regarding the potential managers vision, is how much and what they read. *Warren Buffett reads 4-5 hours a day*.

What are your thoughts on going to cash if you think the market is peaking?
CM: We would not want any of our managers to go completely to cash, it's too big a bet.

*Charlie Munger and Warren Buffett follow the teachings of Ben Graham, author of the Intelligent Investor, who suggests a minimum of 25% in stocks and a maximum of 75% in stocks. Ben Graham's expression was, "**if you don't know what to do, invest 50% in stocks and 50% in bonds and cash**". Ben Graham's philosophy in teaching was to move money in 5%-10%-15% increments, not all at once. Warren Buffett kept repeating Ben Graham's words at the meeting.* "**Have a margin of safety.**" *(Intelligent Investor)*

How much research should I do in determining whether or not to buy a company?
WB: Look for a brand name stock with a **durable competitive advantage,** preferably with a wide moat that doesn't constantly require new capital. If you need to use a computer or a calculator to determine whether you should buy a company, don't buy it. It's too complicated.

CM: Some of the worst business decisions are made with way too many calculations. Generally, it is quite smart to copy very successful investors. Warren and I copied Ben Graham's thoughts on investing decades ago.

Warren Buffett's definition of risk:
WB: Risk is not knowing what you are doing. The less you know about investing, the more you need to diversify.

How do we not ruin our children with money they inherit?
WB: More kids are ruined by the behavior of their parents rather than the money they inherit or the school they attend. The amount of money children inherit will not be the determining factor in how they turn out. Children should read their parent's will before their parents die to understand the obligations and inheritances.

CM: With few exceptions. I am sure you don't want to discuss your will with your children if you are going to treat them unequally.

With current mergers controlling 90% of traffic and increasing airline profits, does Berkshire want to buy an airline?
WB: The answer is no. The airline industry has enormous fixed costs and has the temptation to sell that last seat at a very low price. It's a labor intensive, capital intensive, commodity type business. It's been a death trap for investors ever since Orville took off. Berkshire would not be interested in an airline until there is only one company left in the airline industry.

Do you share the view of Bill Gross at PIMCO that we are entering a "new normal" of lower returns including lower returns for Berkshire?
WB: I generally don't pay any attention to macro forecasts. We talk about businesses rather than a macro forecast. I have a general good feeling about America. What we do know is that BNSF Railroad (a BH Company) will be carrying more carloads in the future and there will be no substitute for the service. It will be an asset with incredible value in the future.

CM: I agree with Bill Gross. If you are contemplating retirement in the next year, I suggest you wait two more years.

How does social media affect Berkshire?
WB: It has mattered at GEICO (a BH Company) with direct sales. We have to listen to our customers. I have been amazed at how fast the world has changed. I thought the Internet would affect young people with buying habits, but it affected everybody. We have to respond to that.

Warren Buffett sent his first tweet the week of the meeting, on Twitter.

CM: I don't understand it very well. I hate the idea of teenagers in my family immortalizing the dumb things they say at 13. There is a case for your ignorance and folly to be hidden.

When did you start reading about investing?
WB: I literally read every book in the Omaha Public Library about investing by the time I was 11 years old. I have read many of the same books two and three times over.

Warren Buffett often states, "**Read all you can about investing as early as you can and then take action on what you have read**".

Do you think Berkshire Hathaway is too big where it will impact future returns of the company?
WB: Berkshire Hathaway is the fifth largest company in the Fortune 500. The larger we become, the harder it is to move the needle. The Berkshire Hathaway brand will generate solid returns for investors in the future.

At Spectrum, we agree with Warren Buffett that it's harder for giant companies to move the needle, which is why we suggest that a portion of an investor's asset allocation be invested in the mid-cap sector where companies are not quite as large and have more room to grow.

One of the panel of reporters, in addition to Becky Quick from CNBC, was Carol Loomis, a writer for Fortune magazine, who recently wrote the book, *Tap Dancing to Work,* which we highly recommend. The book contains over 40 articles from *Fortune* magazine about Warren Buffett, spanning from 1966 to 2012. An interesting part of the book on page 191 is a summary of Warren Buffett's speech at Allen & Companies in 1999 in Sun Valley, Idaho. He mentioned that he broke down the previous 34 years into two 17 year periods which in a sense, is lean years and fat years that were astonishingly symmetrical. Warren Buffett mentions in this book that the mistake investors repeatedly make, is that they habitually use a short-term rear view mirror as a guide. Even though Warren Buffett says he doesn't pay attention to macro-forecasts, he does pay attention to long-term business cycles to be prudent.
According to Bill Gross (from PIMCO), our nation has recently gone through a 32 year period of declining interest rates. As you can see from the

DOW JONES INDUSTRIAL AVERAGE

Dec. 31, 1964: 874.12	Dec. 31, 1981: 875.00
Dec. 31, 1981: 875.00	Dec. 31, 1998: 9191.43

INTEREST RATES, 10-YEAR US GOVERNMENT BONDS

Dec. 31, 1964:	4.20%
Dec. 31, 1981:	13.65%
Dec. 31, 1998:	5.09%

GAIN IN GROSS NATIONAL PRODUCT

1964-1981: 373%	1981-1998: 177%

above chart, it is more difficult for both stocks and bonds to produce favorable results in a period where interest rates are rising versus declining. Once the world central banks begin to stop printing and interest rates begin to likely rise, it may be harder to make money in both stocks and bonds. To prepare for this, at Spectrum we suggest not over extending in any asset class, stay diversified in a balanced portfolio, and have a margin of safety. In the meantime, enjoy the ride.

The meeting always starts out with a video on the Berkshire Hathaway companies including interviews from visiting shareholders. One shareholder said it best, **"Attending the Berkshire Hathaway shareholder meeting is like going to church, you know what the message will be, but leave with a greater knowledge and inspiration about what a great country we live in."**

In summary, we love the trip and have already reserved rooms for next year's meeting in 2014. With Warren being 82 and Charlie being 89, each year at this event becomes more precious. As some say, "It's like getting an MBA in a day".

We appreciate your business.