VGI PARTNERS

4th May 2019

## 2019 BERKSHIRE HATHAWAY ANNUAL SHAREHOLDERS' MEETING

*"We'll miss a lot in the future, we have missed a lot in the past. The main thing to do is to find things where our batting average is going to be high. If we miss the biggest ones, that really doesn't bother us as long as the things we do work out okay."*

- **Warren E. Buffett, 4th May 2019**

We made our annual pilgrimage to Omaha, Nebraska to attend the 2019 Berkshire Hathaway Annual Shareholders' Meeting. As usual, the Q&A session with Warren Buffett (age 88) and Charlie Munger (age 95) lasted a marathon six hours and covered a range of topics from value investing in tech companies to delayed gratification and expanding your circle of competence. It is estimated over 40,000 people attended the meeting this year at the CHI Health Center Omaha.

Questions were submitted by the public and asked by a panel of journalists including Carol Loomis (former Fortune magazine editor), Becky Quick (CNBC reporter) and Andrew Ross Sorkin (New York Times journalist). Warren and Charlie were also quizzed by Jay Gelb (Barclays), Gregg Warren (Morningstar Inc.) and Jonathan Brandt (Ruane, Cunniff & Goldfarb).

We believe the following notes present an accurate depiction of the key take-outs from the meeting, however we have omitted discussions on topics unrelated to investing and business success.

We hope that you enjoy reading these notes as much as we enjoyed attending the meeting and putting them together!

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The meeting began with the annual Berkshire Hathaway film. This year's film included appearances from Tiger Woods, Bill Gates and Apple CEO Tim Cook (advertising the Paper Wizard newspaper-tossing iPhone game). It also included the customary video of Warren Buffett's testimony before a Congressional committee on the Salomon Brothers scandal in 1991, including his admonition to all staff: "Lose money for the firm, and I will be understanding. Lose a shred of reputation for the firm, and I will be ruthless."

## Q&A Session

**Q: Outside of Berkshire Hathaway, what's the most interesting personal investment you have ever made?**

**Buffett:** Well, they're always more fun when you make a lot of money out of them.

[Laughter]

One time I bought one share of stock in the Atled Corp. Atled had 98 shares outstanding and I bought one. Not what you'd call a liquid security.

[Laughter]

Atled was the word Delta spelled backwards and 100 guys in St. Louis had each chipped in $50 or $100 or something to form a duck hunting club in Louisiana. Out of the 100 guys, two had defaulted, that's why there were only 98 shares outstanding.

They bought some land down in Louisiana and they shot some ducks. Apparently, somebody fired a few shots into the ground and oil spurted out. I think the duck club's field is still producing.

I bought stock forty years ago for $29,200 a share and it had that amount in cash and was producing a lot of oil. If they had kept that field the stock could have been worth $2m or $3m a share but they sold out to an oil company.

Charlie, tell him about the one you missed.

**Munger:** I have two investments that come to mind.

When I was young and poor, I spent $1,000 to buy an oil royalty that paid me $100,000 a year for a great many years. But I only did that once in a lifetime.

On a later occasion I bought a few shares of Belridge Oil, which went up thirty times rather quickly. But I had turned down five times as much as I bought! It was the dumbest decision of my whole life. So, if any of you have made any dumb decisions, look up here and feel good about yourselves.

[Laughter and applause]

**Q: Why did you not repurchase more Berkshire stock in the first quarter?**

**Buffett:** We used to have a policy of tying it to book value but that really became obsolete. The aim is to repurchase shares only at a price when you think the remaining shares are worth more the moment after you repurchase it than before.

It's much like if you were running a partnership with three partners and the business was worth $3,000,000 and one of the partners was offering to sell their stake for $1,100,000. You'd say, "forget it!" If he said $1,000,000, we'd probably also say "forget it." But if he said $900,000, we'd take it, because at that point the remaining business would be worth $2,100,000 and you'd have two owners whose interest would have gone up in value from $1,000,000 to $1,050,000.

So, it's really simple arithmetic. Most companies just adopt repurchase programs and say, "we're going to spend so much." That's like saying we're going to buy a company and spend whatever it takes.

We will buy stock when we think it is selling below a conservative estimate of its intrinsic value. Now the intrinsic value is not a specific point, it's probably a range in my mind with a band of maybe 10%, and Charlie would also have a 10% band in his mind. They would not be identical, but they would be very close.

We want to be sure when we repurchase shares that those people who have not sold shares are better off than they were before we repurchased them. It's very simple.

You could easily see periods where we would spend very substantial sums if we thought the stock was selling at 25% or 30% less than what it was worth, and we didn't have something else to do that was better. But we have no ambition in any given quarter to spend a dime unless we're going to be better off for having done so. Charlie?

**Munger:** Well, I predict that we'll get a little more liberal in repurchasing shares.

**Q: Why have you been so quiet on Wells Fargo's fraudulent behaviour compared to your vigorous public pronouncements on Salomon Brothers' misbehaviour?**

**Buffett:** As I see it, though I have no internal reports, it looks to me like Wells made some big mistakes in what they incentivised. And like Charlie says, "there's nothing like incentives." But they can incentivise the wrong behaviour and I've seen that in a lot of places.

That clearly existed at Wells. To the extent they set up a couple of million fake accounts that had no balance in them. They were incentivising crazy things.

The problem, I'm sure, is when you find a problem, you have to do something about it. That's where they probably made a mistake at Wells Fargo and they made it at Salomon.

The CEO of Salomon in 1991, John Gutfreund, would not have played around with the government. He would not have done what the bond trader Paul Mozer did in playing around with the rules that the federal government had on bond bidding.

But when he heard about it, he did not immediately notify the Federal Reserve. He heard about it in late April and on the 15th of May the government bond auction came along and Paul Mozer did the same thing he had done before and gamed the auction. The destiny of Salomon was straight downhill from this point forward because the CEO had heard about a pyromaniac and he let him keep the box of matches.

My understanding with Wells was that there was an article in the Los Angeles Times a couple years before the whole thing was exposed. Somebody ignored that article.

[Story link: https://www.latimes.com/business/la-fi-wells-fargo-sale-pressure-20131222-story.html].

Charlie?

**Munger:** Well, I don't think people ought to go to jail for honest errors of judgment. It's bad enough to lose your job. And I don't think that any of the top officers were malevolent in any way. We're talking about honest errors in judgment.

And I don't think former Wells Fargo CEO Tim Sloan even committed honest errors of judgment. I think he was just an accidental casualty that didn't deserve the trouble. I wish that Tim Sloan was still there.

**Buffett:** Yeah, there's no evidence that he did a thing. He stepped up to take a job where he was going to basically be a piñata for all kinds of investigations.

Rightfully, Wells should be investigated for what they do, all banks should. They get a government guarantee. If they abuse that, they should pay a price. If anybody does anything like what Paul Mozer did at Salomon, they ought to go to jail. Paul Mozer only went to jail for four months.

If you're breaking laws, you should be prosecuted. I wish CEOs wouldn't go away so rich if they do a lot of dumb things, but people will do dumb things.

[Applause]

I actually proposed that if a bank gets to where it needs government assistance, the responsible CEO should lose his net worth and his spouse's net worth.

[Applause]

And they should come after the directors for everything they've received over the past five years. It's the shareholders who pay. We own 9% of Wells so whatever this will cost, 9% of it will be borne by us.

One thing you should know, incidentally, is that the FDIC, which was started in 1933 as part of the New Deal, has not cost the United States Government a penny. It now has about $100bn in it and that money has all been put there by the banks and it has covered the losses of hundreds and hundreds of financial institutions. The government's guarantee saved the banks, but the government's money did not save the banks. The banks as an industry have not just paid every loss but they've actually accumulated $100bn.

When you hear all the political talk about the banks, know that they have not cost the federal government a penny. There were a lot of actions that took place that shouldn't have taken place. There are a lot fewer such actions now than in the period leading up to 2008 and 2009, but some banks will make mistakes in the future.

Charlie?

**Munger:** I've got nothing to add to that.

**Q: Do you anticipate an impact on Berkshire from higher regulation, taxes, or break-ups if a socialist Democratic Party candidate for U.S. President were to win? How do you think about your own politics as a fiduciary of our company?**

**Buffett:** I have said that as a business leader you do not put your citizenship in a blind trust, but you also don't speak on behalf of your company. If you speak, you speak as a citizen, and you have to be careful because it will be assumed that you speak on behalf of your company.

Berkshire Hathaway certainly in the past 54 years has never, and will never, contribute to a presidential candidate. We don't do it.

[Applause]

My position at Berkshire is not to be used to further my own political beliefs, but my political beliefs can be expressed as a person, not as a representative of Berkshire, when a campaign is important. But I try to minimise it.

It's no secret that in the last election I raised money. I won't give money to political action committees. But I've raised substantial sums.

I don't like the way money is used in politics and have written op-ed pieces in the past on the influence of money on politics. I spent some time with John McCain many years ago, before the McCain-Feingold law on ways to try to limit it, but the world has developed in a different way.

[VGI Partners comment: The McCain-Feingold Act is a 2002 law regulating the financing of U.S. political campaigns and parties.]

I will just say I am a card-carrying capitalist.

[Applause]

I believe we wouldn't be sitting here except for the market system and the rule of law and other things that are embodied in this country.

But I also think that capitalism involves regulation and taking care of people that get left behind, especially when the country gets enormously prosperous. But beyond that I have no Berkshire podium for pushing anything.

Charlie?

**Munger:** I think we're all in favour of some kind of government safety net in a country as prosperous as ours. What a lot of us don't like is the vast stupidity with which parts of the social safety net are managed by the government.

[Applause]

It would be much better if we could do it more wisely. But I also think it would be better if we did it more liberally.

**Buffett:** One of the reasons we're involved in this effort along with Jamie Dimon's J.P. Morgan and Jeff Bezos' Amazon on the medical question is that we have as much money going to medical care as we have funding the federal government. Medical care has gone from 5% to 17% or 18% of GDP while the amount going to the federal government has stayed about the same at 17%.

**Q: To what extent do the changing dynamics in the consumer food industry change your view on Kraft Heinz?**

**Buffett:** What I said was that we paid too much for Kraft. On the Heinz part of the transaction, we originally owned half of Heinz, we paid an appropriate price there and we did well. We paid too much money for Kraft, and to some extent our own actions had driven up the prices.

Kraft Heinz generates profits of say $6bn pre-tax on $7bn of tangible assets, that is a wonderful business. But you can pay too much for a wonderful business. We bought See's Candy and we made a great purchase as it turned out and we could've paid more, but there is some price at which we could've bought See's and it wouldn't have worked. The business doesn't know how much you paid for it, it is going to earn based on its fundamentals and we paid too much for the Kraft side of Kraft Heinz.

The efficiency of operations has improved at Kraft Heinz. But Amazon itself has become a brand. Kirkland at Costco is a $39bn brand, all of Kraft Heinz does $26bn and it's been around for 150 years and it has spent billions of dollars on advertising. Costco established a brand called Kirkland which now does more than any food company and that brand moves from product category to product category. Coca-Cola moves from Coke to Cherry Coke to Coke Zero and so on. But Kirkland really moves across categories, and Kirkland does more business than Coca-Cola does. Kirkland operates through 775 warehouses at Costco and Coca-Cola is sold at millions of distribution outlets.

The retailer and the brands have always struggled about who gets the upper hand in moving the product to the consumers. There is no question in my mind that the position of the retailer relative to the brand has improved, they have gained in power.

Kraft Heinz is still doing well operationally but we paid too much. You can turn any investment into a bad deal by paying too much, what you can't do is turn any investment into a good deal by paying a little – which is how I started out in this world. The idea of buying cigar butts that are declining and poor businesses for a bargain price is not something we do anymore, we try to buy decent businesses for a good price and we made a mistake on the Kraft part of Kraft Heinz.

**Q: With the recent Amazon purchase, should we be preparing for a change in the value investing approach that built Berkshire?**

**Buffett:** I know that value investing is somehow connected to book value or low price to earnings ratios. But as Charlie has said, all investing is value investing. I mean you're putting out some money now to get more later on, and you're making a calculation as to the probabilities of getting that money, when you will get it and what interest rates will be in between. And all the same calculations go into it whether you're buying some bank at 70% of book value or you're buying Amazon at some very high multiple of reported earnings.

The people making the decision on purchasing Amazon are as much value investors as I was years ago. So that has not changed. They are looking at many hundreds of securities, and they can look at more than I can because they're managing less money in their universe. But they are looking for things that they feel they understand.

The considerations are identical when you buy Amazon versus a bank stock that looks cheap statistically. In the end, it all goes back to Aesop, who in 600 BC said that a bird in the hand is worth two in the bush.

And when we buy Amazon, we try to figure out whether there's three or four or five in the bush and how long it will take to get to the bush, how certain we are that we're going to get to the bush and who else is going to come and try and take the bush away. And we do the same thing, despite a lot of equations you learn in business school, the basic equation is that of Aesop.

Your success in investing depends on how well you are able to figure out how certain that bush is, how far away it is and what the worst case is. That will guide me, that will guide my successors in investment management at Berkshire, and I think they'll be right more often than they're wrong. Charlie?

**Munger:** Well, Warren and I are a little older than some people and...

**Buffett:** Than everybody.

[Laughter]

**Munger:** And we're not the most flexible people in the whole world. And of course, if something as extreme as the internet happens and you don't catch it other people are going to blow by you. And I don't mind not having caught Amazon; the guy is a miracle worker. I give myself a pass on that, but I feel like a horse's ass for not identifying Google better. I think Warren feels the same way.

**Buffett:** Yes.

**Munger:** We screwed up.

**Buffett:** He's saying we blew it. And we did have some insights into that because we were using them at GEICO and we were seeing the results it produced. We saw that we were paying $10 a click or whatever it might have been for something that had a marginal cost to them of exactly zero.

**Munger:** We saw it in our own operations, "oh well, that Google advertising was working." And we just sat there sucking our thumbs. So, we're ashamed. We're trying to atone. Maybe Apple was atonement.

**Buffett:** When he says, "sucking our thumbs," I'm just glad he didn't use some other example.

[Laughter]

**Q: How do you value the company's insurance unit?**

**Buffett:** Well, our insurance business gives us a float. That's other people's money which we're temporarily holding but which gets regenerated all the time. So, in a practical manner it has a very, very long life and it's probably a little more likely to grow than shrink. We have $124 billion that people have given us. And that's somewhat like having a bank that just consists of one guy that comes in and deposits $124 billion and promises not to withdraw it forever.

And we've got a very good insurance business which has taken a very long time to develop, a very long time. In fact, I think we probably have the best property casualty business in the world. So, it's worth a lot of money.

We have a very high value on that. I don't want to give you an exact number because I don't know the exact number and any number I would have given you in the past would have turned out to be wrong, to the low side. We have managed to earn money on money that is given to us for nothing and have the side earnings from underwriting. And it's an integral part of Berkshire.

Berkshire is really the ideal form for writing insurance business because we have this massive amount of assets that are largely uncorrelated with natural disasters and we don't need to buy reinsurance from anybody else. And we can use the money in a more efficient way than most insurance companies.

So, it's a very valuable asset. I don't want to give you a figure on it, but we would not sell it. We certainly wouldn't want to sell it for its float value. It's extraordinary, it's taken a long time to build, and I don't think anyone could build anything like it. It just takes so long.

**Q: Is there a way to develop the skill of delayed gratification?**

**Munger:** I'll take that because I'm a specialist in delayed gratification. I have had a lot of time to delay it. My answer is that this really comes out of the womb. Alternatively they come out of the womb where they have to have everything right now. And I've never been able to change them at all. So, we identify it. We don't train it in.

**Buffett:** Charlie's had eight children so he's become more and more of a believer in nature versus nurture.

[Laughter]

**Munger:** There’s probably some nice little woman of about 95 out there in threadbare clothing, and she's delaying gratification right to the end and probably has 4,000 A shares. It's just these second and third-generation types that are buying all the jewellery.

**Buffett:** I don't necessarily think that for all families in all circumstances, that saving money is necessarily the best thing to do in life. I mean, if you really tell your kids they can never go to the movies or we'll never go to Disneyland because if I save this money, 30 years from now, we'll be able to stay a week at Disneyland instead of two days. I think there's a lot to be said for doing things that bring you and your family enjoyment rather than trying to save every dime.

So, my advice is that delayed gratification is not necessarily an unqualified course of action under all circumstances. I always believed in spending two or three cents out of every dollar I earn. But I always had everything I wanted. I mean one thing you should understand, if you aren't happy having $50,000 or $100,000, you're not going to be happy if you have $50 million or $100 million.

A certain amount of money does make you feel better and those around you feel better, just in terms of being more secure. But loads and loads of money, I probably speak to as many rich people as just about anybody and I do not think they're happier because they get super rich. I think they're happier when they don't have to worry about money. But you don't see a correlation between happiness and money beyond a certain point. So, don't go overboard on delayed gratification.

**Q: Mr. Buffett and Mr. Munger, I'm 27 years old and aspire to be a great money manager like you one day. I'm considering starting my own investment fund, but I also recognise that I'm young and have a lot to learn. My question to both of you is how did you know you were ready to manage other people's money? And what general advice would you give to someone in my shoes?**

**Buffett:** Well, that's a very interesting question because I've faced that question and I sold securities for a while. In May of 1956, I'd come back from New York and a number of members of my family wanted me to tell them about stocks as I had earlier, before I'd taken a job in New York. I said I did not want to get into the stock sales business, but I enjoyed investing. I was glad to figure out a way to do it, which I did through a partnership. But I would not have done that if I'd thought that there was any chance that I would lose them money.

What I was worried about was not how I would behave, but how they would behave. I needed people that were in sync with me. When we sat down for dinner in May of 1956 with seven people, I showed them the partnership agreement and I said you don't need to read this. But I said here are the ground rules as to what I think I can do and how I want to be judged. If you're in sync with me I want to manage your money because I won't worry about the fact that you will panic if the market goes down or somebody tells you something different.

We have to be on the same page. And if we're on the same page, then I'm not worried about managing your money. And if we aren't on the same page I don't want to manage your money because you may be disappointed.

So, I don't think you want to manage other people's money until you have a vehicle and can reach the kind of people that will be in sync with you. I think you ought to have your own ground rules as to what your expectations are, when they should send you roses and when they should throw bricks at you. It's one reason we didn't have a single institution in the partnership because institutions meant committees.

**Munger:** You had some aunts that trusted you?

**Buffett:** Yes, and my father-in-law who gave me everything he had in the world. But I didn't mind taking everything he had in the world as long as he would stick with me and wouldn't get panicked by headlines and that sort of thing. So, it's enormously important that you don't take people that have expectations of you that you can't meet.

And that means you turn down a lot of people, it means you'd probably start very small and you get an audited record. And when you've got the confidence that if your own parents came to you and were going to give you all their money to invest it for them that's when you're ready to go on it.

**Munger:** Let me tell you a story. I tell young lawyers who frequently come to me saying how can I quit practicing law and become a billionaire instead?

[Laughter]

I say well, it reminds me of a story they tell about Mozart. A young man came to him and said I want to compose symphonies and I want to talk to you about it. And Mozart said, how old are you? And the man said 22. And Mozart said, you're too young to do symphonies. And the guy said, but you were writing symphonies when you were 10 years old. He says yes, but I wasn't running around asking other people how to do it.

**Buffett:** We wish you well.

[Laughter]

And actually, we really do because the fact you asked that sort of a question is indicative of the fact that you've got the right attitude going in.

**Munger:** It isn't that easy to be a great investor.

**Q: What have you learned about the differences in human nature that help you make better investments?**

**Buffett:** Well, you should wait for Charlie's answer because he's even older. He can tell you more about being old than even I can.

[Laughter]

It's absolutely true that by virtually any yardstick you use, I'm going downhill. If I could take a SAT test now and you could compare it to a score of when I was in my early 20s, I think it would be quite embarrassing. Charlie and I can give you a lot of examples and there's other things we won't tell you about the decline as you get older. But I would say this. It's absolutely true in my view that you can and should understand human behaviour better as you do get older. You just have more experience with it.

Charlie and I read every book we could on every subject we were interested in when we were very young, and we learned an enormous amount just from studying the lives of other people. But I don't think you can really get to be an expert on human behaviour at all by reading books, no matter what your IQ is, no matter who the teacher is. And I think that you really do learn a lot about human behaviours by having multiple experiences.

I can't do mental arithmetic as fast as I used to and I can't read as fast as I used to, but I do think that I know a lot more about human behaviour than I did when I was 25 or 30.

**Munger:** If you learn one mantra, it comes from a Chinese gentleman who just died, Lee Kuan Yew, who is the greatest nation builder probably that ever lived in the history of the world. He said one thing over and over again all his life, "Figure out what works and do it.". If you just go at life with that simple philosophy, you will find it works wonderfully well. Figure out what works and do it.

**Buffett:** And figuring out what works means figuring out how other people behave.

**Munger:** Of course. Of course.

**Buffett:** And Charlie and I have seen the extremes in human behaviour and in so many unexpected ways.

**Q: How do you think about and safely price unconventional insurance contracts?**

**Ajit Jain:** In situations where there's not enough data to hang our hat on, it's more of an art than a science. We start off with as much science as we can, looking at historical data that relates to the risk that we're looking at. And then beyond that, if there's not enough historical data we can look at, then we have to make a judgment in terms of what are the odds of something like that happening.

In situations like that, we absolutely make sure we cap our exposure so that if something bad happens, or if we've got something wrong, we absolutely know how much money we can lose and whether we can absorb that loss without much pain to the income statement or the balance sheet.

In terms of art, it's a difficult situation. More often than not it's impossible to have a point of view and we end up passing on it. But every now and then we think we can get a price where the subjective odds we have on something like that happening has a significant margin of safety in it. So, we feel it's a risk that's worth taking. And then finally, the absolute acid test is I pick up the phone and call Warren. Warren, here's the deal, what do you think?

**Munger:** It's not easy and you wouldn't want just anybody doing it for you.

**Buffett:** No. In fact, the only one I would want doing it for us on the kind of things we have sometimes received is Ajit. I mean, it's that simple, there isn't anybody like him. And as Ajit said, we'll look at a worst case.

We can tell you how many 6.0 or greater earthquakes have happened in the last 100 years, in Alaska or California or so on. And there's a lot of things you can look up figures on. Now, sometimes those are useful and sometimes they aren't, but there's a lot where you can get a lot of data.

And then there's others – after 9/11, was that going to be the first of several other attacks that were going to happen very quickly. I think it was Cathay Pacific that couldn't land in Hong Kong the following Monday unless they had a big liability coverage placed with somebody. I mean, the world had to go on. The people that held mortgages on the Sears Tower all of a sudden wanted coverage. The policies were just pouring in. People that hadn't been worried about something a week earlier were now worried about things involving huge sums. And there were really only a couple people in the world that would even listen and had the capacity to take on a lot of the deals we were proposed. There's no book to look up. There's a big element of judgment.

Ajit and I, he's 100 times better at this than I am, but we do tend to think alike on this sort of thing. You don't want to think too much alike, but we think alike. I've got a willingness to lose a lot of money and virtually every other insurance company has limits in place at these higher sums, so the world was paralysed on that. We don't get those now obviously. But we do occasionally get enquiries about doing things that really nobody else in the world can do.

We don't build the business around it, but we are ready when the time comes. And Ajit is an asset that no other company in the world has. And we work him, and we actually enjoy talking to each other about these kind of risks because he'll ask me to think about what the price should be and he'll think about it. We don't tell each other at the time and then I'll name it and then he'll say, "Have you lost your mind, Warren?". Then he'll point something out to me that I've overlooked. It's a lot of fun, and it's made us a lot of money and the shareholders of Berkshire Hathaway are extraordinarily lucky. You can't hire people like Ajit. I mean, you get them once in a lifetime. Charlie?

**Munger:** I don't think that we helped him very much. It's really difficult.

**Buffett:** There will be a time when, just like in financial markets, things are happening in the insurance world where Berkshire will be the only place people turn to.

**Munger:** But in the past, Ajit talking to you has added more than $50 billion to the balance sheet of Berkshire by making these odd-ball calls.

**Buffett:** And if he hadn't talked to me, it'd probably be $49.9 billion, but you don't want to try this at home.

**Q: Has 3G become a weakness for Berkshire? Would Berkshire be open to partnering again with 3G on a major acquisition?**

**Buffett:** Yes, they are our partners and we joined them. We had a one-page agreement, which I haven't ever really read. Jorge Paulo is a good friend of mine. I think he's a marvellous human being and I'm pleased that we are partners. It's conceivable that something would come up. They have more of a taste for leverage than we do and they probably have more of a taste for paying up, but in certain types of situations they'd be way better operators than we would.

They go into situations that need improvement and they have improved them. But I think both they and we did underestimate, not what the consumer is doing so much, but what the retailer is. At See's Candy we sell directly to the consumer, but at Kraft Heinz there are intermediaries. And those intermediaries are trying to make money. We're trying to make money and the brand is our protection against the intermediaries making all the money.

Costco tried to drop Coca-Cola back in I think 2008 but you can't drop Coca-Cola and not disappoint a lot of customers. Snickers bars are the number one candy that Mars makes and they've been number one for 30 or 40 years. And if you walk into a drug store and the guy says the Snickers is $0.75 but I've got this special little bar my wife and I make in the back of the store and it's only $0.50, you don't buy it, you buy the Snickers bar.

So, brands can be enormously valuable but many of the brands are dependent on retailers. GEICO is not. GEICO goes directly to the consumer. If we save the consumer money on insurance they're going to buy it from us. And our brand, we'll spend well over $1.5 billion on advertising this year, and you think, my God, we started this in 1936, and we were saying the same thing then about saving 15% in 15 minutes. That brand is huge, and we have to come through on the promise we give, which is to save people significant money on insurance and we're dealing directly with the consumer.

When you're selling Kool-Aid or ketchup or Heinz 57 sauce, you are going through a channel. The phrase was used earlier today “our gross margin is their opportunity.” We think that the consumer is going to force them to have our product and that we will get the gross margin but that fight, that tension has increased in the last five years. And I think it's likely to increase in the next five. And Charlie is the director of a company that caused me to think a lot about that subject. Charlie?

**Munger:** Well, what I think is interesting about the 3G situation, there's a long series of transactions that work very well. And finally, there was one transaction at the end that didn't work so well. That is a very normal outcome of success in a big place with a lot of young men who want to get rich quick and it just happens again and again. And you want to be careful. It's so much easier to take the good ideas and push them to wretched excess.

**Buffett:** Yes. No idea is good at any price. But it's not at all inconceivable that we could be partners in some other transaction in the future.

**Q: What are your thoughts on Apple?**

**Buffett:** I like our Apple holdings very much. I mean, it is our largest holding. And actually, what hurts in the case of Apple is that the stock has gone up. I'm not proposing anything be done about it, but we'd much rather have the stock at a lower price, so we could buy more.

Importantly, Apple authorized another $75 billion the other day, but let's say, they're going to spend $100 billion in buying their stock over the next three years.

So in effect, a major portion of earnings will be spent increasing our ownership without us paying out a dime, which I love. And the recent development, the stock has moved up substantially, actually hurts Berkshire over time. We'll still do fine, but we're not going to dissect our expectations about Apple for people who may be buying it against us tomorrow. We don't give away investment advice on that for nothing but we like the fact that it's our largest holding. Charlie?

**Munger:** Well, in my family, the people that have Apple phones, it's the last thing they'll give up.

**Q: Could you please share with us what you value the most in life now?**

**Munger:** Well we'd like to have a little more of it.

[Laughter]

**Buffett:** It's the two things you can't buy, time and love, and I have valued those for a long time. And I've been very, very, very lucky in life in being able to control my own time to an extreme degree. Charlie has always valued that, too. That's why we really wanted to have money, so we could do what we damned please in our life. It wasn't six houses or boats or anything. Well, Charlie's got a boat.

But time is valuable, and we are very, very lucky that we get to do what we love to do every day. I literally could do anything that money could buy pretty much, but I'm having more fun doing what I do than anything else.

And Charlie has got an interesting life, and he brings a lot to it. He still reads more books in a week than I get done in a month and he remembers what he reads. But we don't have unlimited time and we do what we need to do to free up the time for what we like to do and we both maximise that in our lives.

**Munger:** Anybody is lucky if he gets to spend his time on what he likes doing. That's a blessing.

**Buffett:** Yes. We've had so much good luck in life. It sort of blows your mind.

**Q: Do you believe that you need to adapt your model of wide moats and strong brands to embrace, not avoid technology?**

**Munger:** I think the answer is maybe.

[Laughter]

**Buffett:** You are exactly right in that we do like moats. We used to be able to identify them in a newspaper that was the only newspaper in town or in TV stations where we felt they had dominant positions, where we felt the product was under-priced in terms of advertising.

We saw it in brands sometimes and it is true that in the tech world, if you can build a moat, it can be incredibly valuable. I've not felt the confidence that I was the best one to judge that in many cases. It wasn't hard to figure out who was winning in any given time or what their business was about, but there were a huge number of people that knew more about the game than we did. And we don't want to try and win in a game we don't understand.

We may hire people, such as Ted and Todd, that are better at understanding certain areas of investing than I am or maybe even Charlie is, but the principles haven't changed. You are right that some of the old ones have lost their moat and you are right that there are going to be companies in the future that have them and will be enormously valuable. And we hope we can identify one every now and then, but we'll still stay within where we think we know what we're doing, and obviously, we will make mistakes even within that area.

But we won't go into something because somebody else tells us it's a good thing to do. I mean, we are not going to subcontract your money to somebody else's judgment. You can take your money and follow somebody else's judgment, but we're not in the business of thinking that if we hire ten people with specialties in different areas that it will lead to superior investment results.

And we do worry that we could blow a lot of money that way. We'll do our best to enlarge the circle of competence of the people at Berkshire, so that we don't miss so many, but we'll miss a lot in the future, we have missed a lot in the past. The main thing to do is to find things where our batting average is going to be high. If we miss the biggest ones, that really doesn't bother us as long as the things we do work out okay.

**Munger:** I think we've still got an awful lot of companies with big moats. Some of our industrial brands are just incredibly strong. But we're trying to improve.

**Q: How can we best emulate your success in building your circle of competence?**

**Buffett:** It's much more competitive now than when I started.

When I started I literally could take the Moody's industrial manual and the Moody's Bank and Finance Manual and I could go through page by page and at least run my eyes over every company and think about which ones I might want to learn more about.

I would just do a whole lot of reading. I try and learn as much as I could about as many businesses and I would try to figure out which ones I really had some important knowledge and understanding about that was probably different than overwhelmingly most of my competitors. I would also try and figure out which ones I didn't understand.

I would focus on having as big a circle as I could have and also focus on being as realistic as I could about where the perimeters of my circle of competence were. I knew when I met Lorimer Davidson in January of 1951 that I could get insurance. I mean, what he said made so much sense to me in the three or four hours I spent with him on that Saturday. So I dug into it and I could understand it. My mind worked well in that respect.

I didn't think I could understand retailing. All I had done was worked for the same grocery store that Charlie had and neither one of us would know much about retailing except it was harder work than we liked. You've got to do the same thing but you've got way more competition now.

But if you get to know even about a relatively small area more than other people do and you don't feel a compulsion to act too often, you just wait until the odds are strongly in your favour. It's still a very interesting game. It's harder than it used to be. Charlie?

**Munger:** Well, I think the great strategy or the great asset of humanity is to specialise. Nobody wants to go to a doctor that's half proctologist and half dentist.

[Laughter]

So, the ordinary way to succeed is to narrowly specialise. Warren and I really didn't do that, and we didn't because we prefer the other type of activity, but I don't think we can recommend it to other people.

**Buffett:** Yes, there was a little more treasure hunting in our day and it was easy to spot the treasure.

**Munger:** We made it work, but it was kind of a lucky thing. It's not the standard way to go.

**Buffett:** The business I best understood actually was insurance and I had very little competition. I went to the insurance department in Harrisburg, Pennsylvania. I remember one time driving there just to check on some Pennsylvania company, and this is when you couldn't get all this information on the internet.

I went in and I asked about some company. The guys said, "You're the first one that's ever asked about that company". Then I went over to the Standard & Poor's library on Houston Street and I asked for all this obscure information and there wasn't anybody sitting around there. So, there was less competition. But if you know even one thing very well it will give you an edge at some point.

Tom Watson Senior said at IBM that, “I'm no genius, but I'm smart in spots, and I stay around those spots.” That's basically what Charlie and I try to do, and I think that's probably what you can do.

**Munger:** Yes, we did it in several fields. That's hard.

**Buffett:** And we got our head handed to us a few times, too.

**Q: Why don’t you invest Berkshire’s excess cash in a well-diversified index fund? Had you done that over the past 15 years, all the time keeping the $20 billion cash cushion you want, I estimate that at the end of 2018 the company's $112 billion balance in cash, cash equivalents and short-term investments in T-bills would have instead been worth about $155 billion.**

**Buffett:** That's a perfectly decent question and I wouldn't quarrel with the numbers. I would say that is an alternative, for example, that my successor may wish to employ because, on balance, I would rather own an index fund than carry treasury bills. But I would say that if we had instituted that policy in 2007 or 2008, we might have been in a different position in terms of our ability to move late in 2008 or 2009.

So, it has certain execution problems with hundreds of billions of dollars than it does if you were having a similar policy with $1 billion or $2 billion or something of that sort. But it's a perfectly rational observation and certainly looking back on ten years of a bull market, it really jumps out actually.

But I would argue that if you're working with smaller numbers, it would make a lot of sense. It might well make sense in the future at Berkshire to operate that way. We committed $10 billion a week ago and there are conditions under which in any given week or month or year we could spend $100 billion, very, very quickly. And if we did, if those conditions existed, it would be capital very well deployed – much better than in an index fund.

So, we're operating on the basis that we will get chances to deploy capital. They will come in clumps in all likelihood. And they will come when other people don't want to allocate capital. Charlie, what do you think about it?

**Munger:** Well, I plead guilty to being a little more conservative with the cash than other people. But I think that's all right. A lot of securities would have done better than the S&P with 20-20 hindsight.

I watched Harvard use the last ounce of their cash, including all their prepaid tuition from parents and plunge them into the market exactly at the wrong moment and make a lot of forward commitments to private equity. And they suffered 2 or 3 years of absolute agony. We don't want to be like Harvard and we are not going to change now.

[Applause]

**Buffett:** We do like having a lot of money to be able to operate very fast and very big. And we know we won't get those opportunities frequently. We have a lot of money to commit and I would say that if you told me I had to either carry short-term treasury bills or have index funds and just have that money invested in America generally, I would take the index funds. But we still have hopes.

The one thing you should very definitely understand about Berkshire is that we run the business in a way that we think is consistent with serving shareholders who have virtually all of their net worth in Berkshire. I happen to be in that position myself. We have a lot of people who trust us and who really have disproportionate amounts of Berkshire compared to their net worth.

**Q: As both a major employer and a producer of consumer goods, what do you make of the uncertain outlook for full-time jobs with the rise of automation and temporary employment?**

**Buffett:** Well, if we'd asked that question 200 years ago and somebody said with the outlook for development of farm machinery and tractors that 90% of the people on farms were going to lose their job, it would look terrible.

Our economy, our people and our system has been remarkably ingenious in achieving what we have now. We have 160 million jobs, when ever since 1776 we've been figuring out ways to get rid of jobs. That's what capitalism does and it produces more and more goods per person. We never know exactly where they're going to come from.

We find ways in this economy to employ more and more people and we've got now more people employed than ever in the history of the country even though company after company has been trying to figure out naturally how to get more productive. Which means churning out the same number of goods with fewer people or churning out more goods with the same number. That is capitalism.

I don't think you need to worry about American ingenuity running out. You look at people in all kinds of businesses and they like to make money, but they really like to be inventive. And in this economy, it works. It will continue to work. It'll be very tough in certain industries and there will be dislocations. We won't be making as many horseshoes and that sort of thing when cars come along and all of that.

But we do find ways now to employ 155 million people and support a population of 330 million people. When we started with 4 million people 80% of the labour was employed on farms. So, this system works and it will continue to work. I don't know what the next big thing will be. I do know there will be a next big thing. Charlie?

**Munger:** Well, nobody wants to go back to being a blacksmith or scooping along the street picking things up or other things people used to do. We're glad to have work eliminated. A lot of this worry about the future comes from those who tell the story that the people at the bottom of the economic pyramid have been a little stretch when the people at the top got ahead faster. That happened by accident because we were in so much trouble, we had to flub the world with money and drive interest rates down to zero. And of course, that drove asset prices up and helped the rich.

I mean, it's just an accident at the end of the day. It will soon pass. We want to have all those productivity improvements and we shouldn't worry a little about the fact that one class or another is a little ahead at one stretch.

**Buffett:** Charlie and I worked in a grocery store. And when people ordered carrots we had ladders that we climbed up to reach the carrots and then we placed it in a folding box and we put it on the truck. If you looked at the amount of food actually transferred between the producer and a person who consumed it and the number of people involved in the transaction, it was 1/4 as efficient as it is now to get food delivered to you.

**Munger:** And the food was worse.

**Buffett:** My grandfather was distressed about the fact that this particular credit-and-delivery kind of store would be eliminated and it was eliminated.

**Q: Do you feel that in some cases, the regulators and/or politicians are running the big banks instead of the CEO and the Board of Directors?**

**Munger:** Sure. But not too much.

[Laughter]

**Buffett:** Insurance has been regulated. It happens to be regulated primarily on a state basis, but insurance has been regulated ever since we went into it.

When I look at GEICO it was doing $7 million of business and it will do $30-odd-billion of business now. It's been regulated the whole time and regulation can be a pain in the neck generally, but on the other hand, we don't want a bunch of charlatans operating in the insurance business. Insurance actually lends itself to charlatans because you get handed money and you give the other guy a promise.

I like the fact that there is regulation in the insurance business or the banking business. It doesn't mean it can't drive you crazy sometimes, but those businesses should be regulated. They're too important. Any time you can take other people's money and they go home with a promise and you go home with the money, I don't mind a certain amount of regulation in those businesses. Charlie?

**Munger:** Yes. If you're using the government's credit because you have deposit insurance, there's an implicit bargain you can't be too crazy with whatever you do with the money. That's perfectly reasonable. I absolutely believe that we should have a regulation system that involves supervision of risk taking by banks.

It got particularly bad in the investment banks at the peak of the real estate crisis. There's only one word for that behaviour, it was disgusting. And it was pretty much everybody. They felt if the other guy is doing dumb things, I got to do it too. What a crazy way to behave. So sure, there's some intervention but probably there has to be.

**Q: For a company as large and diversified as Berkshire, why are investors being provided less disclosure than previously?**

**Buffett:** Well I don't actually think we provide less information. We may present it in a somewhat different form from year to year.

This year for example, I started my letter, as usual, by saying in my mind "Dear Doris and Bertie" – my sisters – to tell them what I would tell anyone who had a significant proportion of their net worth in Berkshire who is intelligent, did not know all the lingo of all our businesses, but would read a lot of words because they did have a large investment. I tell them that in the language that I think will be understandable to a significant percentage of a million plus people who have all kinds of different levels of understanding of accounting. I tell them the information I would want to hear on the other side.

It doesn't really make any difference if you're talking about a $500 billion organisation to understand our insurance business. It gives you a picture in four or five pages. I think you can write a 300 page report that gives a whole lot less information than a 50 page report and you lose people.

So, I try to tell people what I would tell them if we had a private business and we owned a third of it each and once a year they like to get filled in. They don't know what a combined ratio is because it's a dumb term that everybody uses, the important thing to call it is a profit margin. The operating ratio in the rail business is an obsolete term, the better thing would be to call that a profit margin too.

We're not writing it for analysts, we're writing it for shareholders. We're trying to tell them something about not just what we own now, but we're also trying to give a picture of what we're trying to do over time. I think if someone is terribly interested in the details they really are missing the whole picture because you could have known every single detail of our textile business in 1965. We could give you the information on how much we made from lining, how much we made form handkerchiefs and you'd be in a different world.

The important thing was how we looked at running money and what we would do about things over time. Going into a whole lot of detail that would be interesting for an analyst but really for a shareholder they have to make a decision about who's running their money, how they're running it, what they've done over time and what they hope to do in the future. We're writing it for the individual.

**Munger:** I suppose I should be watching every tiny little business down to the last nickel but I don't. I suppose our competitors would like that detail but it wouldn't do our shareholders any good, so we'll probably just keep reporting the way we do.

**Buffett:** You can see how flexible we are around here.

[Laughter]

**Q: Could you discuss how much of a motivation the Berkshire legacy is to you?**

**Buffett:** I would say it is the primary motivation, but it's been that way for a very, very, very long time. No matter what was going right in my life, if things were going badly at Berkshire, I would not feel good. The culture here is stronger now than it was ten years ago and it was stronger then than ten years before that. It moves slowly, but it goes in the right direction.

When we get chances to deploy the capital, whether it was the partnership originally or Berkshire now, we wanted them all to be compounding machines. That's why people gave us capital, that's why we put our own capital in. And if we failed, we really felt like we'd failed. It didn't make any difference how much money we made from fees or anything like that. We knew what our yardstick was and so that will continue.

I think Berkshire is better situated than it's ever been, except for the fact that size is a drag on performance. I probably wrote that 40 years ago. I wrote it actually when I closed the partnership to new money. We had $40 million in it then. I just said that additional capital would drag down returns from a $40 million base. So, you can imagine how I feel with a $368 billion base of capital in Berkshire now.

But this culture is special. It can work. It won't be the highest compounder by a long shot against many other businesses. But it'll be one of the safest ways to make decent money over time.

**Munger:** We came a long way from very small beginnings. The fact that it slows down a little when it becomes monstrous is not my idea of a huge tragedy. I think we will continue to do very well in the future. We had nothing like the energy operation 20 years ago, and it's a powerhouse. We had nothing like Kevin's operation in home building 30 years ago and it will soon be the biggest. We have a lot going for us and I'm satisfied. I think it's going to continue reasonably well.

**Buffett:** It would ruin our life if we did terribly. So that's what we wake up thinking about in the morning. We are motivated to have something that is regarded as different than others. We're in a world where so much money is institutionalised. I like the idea of having something that's actually owned by individuals, in very significant part, who basically trust us and don't worry about what the next quarter's earnings are going to be. I think it's different than much of capitalism and I think it's something that Charlie and I feel good about.

**Munger:** Yes, absolutely.

**Q: My question is about your disciplined risk evaluation approach and how you balance that with the fact that perseverance and determination and grit are often necessary forces for success?**

**Buffett:** I certainly like determination and grit in the people we work with, but we don't have any formula that evaluates risk. We certainly make our own calculation of risk versus reward in every transaction we do. That's true whether it's marketable securities, whether it's private investments or whether it's making an investment in a business. Sometimes we're wrong and we're going to be wrong sometimes in the future. You can't make a lot of decisions in this business without being wrong. But we don't think the procedure or the results would be changed favourably by having lots of committees and lots of spreadsheets and that sort of thing.

If I had a group under me, they would try and figure out what I wanted the answer to be and they would tell me what I wanted to hear. I've watched that approach at 20 public companies. Whatever the CEO wants to do, they spend a lot of time getting there. Eventually the investment banker gets there and the internal committees and the operation get there.

It's the same as the insurance business with Ajit. Ajit gets calls on insurance deals, and you have to think through that deal. The main thing is, are you reasonably sure that you know what you're doing? If it gets past that hurdle then we go on to figure out the math of gain versus loss and how much loss we can afford to take. We're willing to take what sound like large losses if we think that the rewards are more likely and proportional.

We have no formulas around Berkshire. We don't sit down and have a bunch of people work until midnight, calculating things and putting spreadsheets together. I've got to tell you about a proposal we received from the investment world because it illustrates a lot. We received a proposition the other day, and I'll disguise the numbers a little bit so nobody can pick it out.

But it was a private company and we'll say it was earning $100 million a year. The seller of the business and the investment banker suggested that we should look at the earnings as being $110 million a year because as a private company they had to pay their top people in cash, which was expensed, but we could pay them in stock options which weren't expensed. Therefore, we could report $110 million if we gave away something we didn't want to give away. By essentially lying about our accounting we could add $10 million in earnings and they wanted us to pay them because they couldn't do it and we could do it. At this point, they're losing me. But it's just astounding the accounting games that are played, all the adjustments.

We also had one that came in from a private equity firm. By mistake, we got the email that was meant for the manager of the private equity firm. They told the manager that when it came to making projections to add 15% because they said, "Buffett will discount by 15% or 20% anyway so just add 15% to offset this conservatism." It's not an elegant business, as Charlie will tell you.

**Munger:** It's bad. Where else do we allow our leading citizens to lie and cheat?

**Q: How do you deal with conflicts when they arise between the two of you?**

**Buffett:** Charlie and I, and people find this hard to believe, but in 60 years we've never had an argument. We have disagreed about things and we'll probably keep occasionally disagreeing about this or that. But if you define an argument as something where emotion starts entering into it or anger or anything of the sort, it just doesn't happen.

I think that Charlie is smarter than I am but I also think that there's certain things where I've spent more time on them than he has and sometimes we both think we're right. Generally, I get my way because Charlie is willing to do it that way and he's never going to second-guess me. And I wouldn't dream of second-guessing him. And really, we will never have a conflict. Charlie?

**Munger:** Well, the issue isn't about how we get along, the issue is how this is going to work when we're gone, and the answer is fine. It's going to work fine.

**Buffett:** We're lucky that I ran into him when I was 28 years old. We both worked in the same grocery store and he grew up less than a block away from where I now live, but I did not know who Charlie Munger was until I was 28. Clearly, we're in sync on how we see the world and we're in sync on business decisions. Charlie would do fewer things than I would, but that's because I'm spending my time on this while he's designing dormitories or something. We both keep busy in our own ways and we have a lot of fun dividing the labour like we do.

Having the right partners in life, particularly the right spouse, is enormously important. It's more fun with a partner, both in personal life and in business life. And you probably get more accomplished, too. You just have a better time. It wouldn't be much fun to work in a little room trading securities, making money but never working with another human being. Charlie probably has some advice on this too.

**Munger:** It's not hard to be happy if you're a collector and don't run out of money. Collecting is intrinsically fun. And so we've been collecting all our lives. It's a very interesting thing. There's always a new rock to be turned over and it's interesting.

**Buffett:** Yes. And certainly, we've collected friends that make our lives better and that we have a good time with. It's very important who you select as your heroes or your friends. I've been lucky in this. It was only because of a doctor named Eddie Davis and his wife that Charlie and I even met. If you keep doing enough things, some will work out. The best ones are ones that involve lifelong involvement with other people. And some of our directors have had similar impacts on me. So I recommend that you look for somebody better than you are and then try to be like they are.

**Q: Our world is changing at a faster pace today versus 40 years ago. And in this context, should we try to expand our circle of competence or shall we stick with our existing circle?**

**Buffett:** Well, obviously, you should expand your circle of competence...

**Munger:** If you can.

**Buffett:** If you can. Yes. And I've expanded mine a little bit over time.

**Munger:** Where you can't though, you ought to be pretty cautious.

**Buffett:** Yes. And you can't force it. If you told me that I had to become an expert on physics or...

**Munger:** Dance, maybe the lead ballet. That would be a sight.

[Laughter]

**Buffett:** Yes.

**Munger:** Particularly now.

**Buffett:** That doesn't mean you can't expand it at all. I mean I did learn about some things as I've gone along in a few businesses. In some cases, I've learned that I'm incompetent, which is actually a plus and you can discard that one. The world is going to change. It's going to keep changing. It's changing every day and that makes it interesting. You should be the master of figuring out what really isn't your circle of competence.

Usually, I would think normally your core competence is probably something that sort of fits the way your mind works. Some people have what I call a money mind and they will work well in certain types of money situations. It isn't so much a question of IQ. The mind is a very strange thing and people have specialties whether in chess or bridge, I see it in different people. And they're really, as Charlie would say, stupid in other areas. Just be wary of it. Don't think you have to increase it and start bending the rules.

**Q: Mr. Buffett, you've said that you could return 50% per annum if you were managing a $1 million portfolio. What type of strategy would you use? Would you invest in cigar butts, or would it be some type of arbitrage strategy?**

**Buffett:** It might well be the arbitrage strategy but in a very different way than customary arbitrage. One way or another, I can assure you, if Charlie was working with $1 million, we would find a way to make 50% with essentially no risk, not using a lot of leverage or anything of the sort. But you change the $1 million to $100 million and that 50% goes down like a rock. But there are little fringe inefficiencies that people don't spot. You do get opportunities occasionally to exploit them, but they don't really have any applicability to Berkshire. Charlie?

**Munger:** I agree totally. You used to say that large amounts of money, they develop their own anchors. It gets harder and harder. I've just seen genius after genius with a great record. And pretty soon he’s got $30 billion and two floors of young men and away goes the good record, it's just the way it works.

**Buffett:** If you have $1 million and really want to make 50% and you're willing to work at it - that's doable, but it just has no applicability to managing huge sums. I wish it did, but it doesn't.

**Q: Why has See's Candies not grown to the scale of other large candy companies like Mars or Hershey's?**

**Buffett:** Well, we've had a dozen or so ideas over the years to grow See's faster and we used to really focus on it because it was a much more sizable part of our business. In fact, in the early days, it was practically our only business aside from insurance. And like I say, we've had 10 or 12 ideas, some of them we've tried more than once. The truth is none of them really worked but the business is extraordinarily good in a very small niche.

Boxed chocolates are something that everybody likes to receive or give as a gift. But relatively few people buy them for themselves. If I leave a box of chocolates open at the office, we've only got 25 people, but it's gone almost immediately. If I take it as a gift to somebody, they're happy to get it. If you leave the box open at a dinner party, again, they're all gone. But those same people that so readily grab it when it's right there in front of them do not walk out to a candy store very often and buy it just to eat themselves. They're not going buy it. It's very much a gift product and it does not grow worldwide.

A very interesting thing, the last time I checked, people in the West prefer milk chocolate, people in the East prefer dark chocolate, people in the West like big chunky pieces, people in the East will take miniatures. We've tried to move it geographically many, many, many times because it would be so wonderful. But it doesn't travel that well. If we open a store in the East we get enormous traffic for a while and everybody says, "we've been waiting for you to come." Then finally, we end up with a store that does X pounds per year when we need 1.5X in the same square footage to make terrific returns. We've tried everything because the math is so good when it works.

**Munger:** Well, we failed in turning our old candy company into Mars or Hershey's for the same reason that you failed to get the Nobel Prize in physics and achieve immortality. It's too tough for us.

[Laughter]

**Buffett:** But we put $25 million into it, it's given us over $2 billion of pretax income, well over $2 billion, which we've used to buy other businesses. If we were the typical company and bought that business and tried desperately to use all the retained earnings within the candy business, I think we'd have fallen on our face. I think that it just illustrates some businesses work in a fairly limited area and others really play out over distance. Dr Pepper has a 10% market share in Dallas but then you go to Detroit or Boston and it's less than 1%.

It's amazing how certain things travel and certain things don't travel. With the candy bars, you mentioned Hershey, I mean, Cadbury doesn't do that well here and Hershey doesn't necessarily do that well in the U.K. And here we are, we all look alike but somehow, we eat different candy bars. It's very interesting to observe. Charlie?

**Munger:** I once told a great man at dinner after he'd written a very great book, I said, "You know, you're never going to write another great book like that." And he was deeply offended. And I've read his four subsequent books and I'm totally right. To write one great book is a lot to do in one lifetime.

**Buffett:** We were very fortunate. I would have blown the chance to buy See's Candies but Charlie said, "don't be so cheap." We still got it at a pretty good price.

**Munger:** It's amazing how much we've learned over the years, and if we hadn't, the record would be so much worse. At any given time, what we already knew was not going to be enough to take us to the next step. That's what makes it difficult. Think of all the people you know that have tried to take one extra step and have fallen off a cliff.

**Buffett:** Well, on that happy note, we will conclude the meeting. Thank you.

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