VGI PARTNERS

5th May 2018

2018 BERKSHIRE HATHAWAY ANNUAL SHAREHOLDERS' MEETING

"I can't give you a formulaic approach because I don't use one. I just mix all the factors, and if the gap between value and price is not attractive, then I go on to something else… If you want a formula for valuing a business, you should go back to graduate school. They'll give you lots of formulas that won't work."

- **Charles T. Munger, 5th May 2018**

We made our annual pilgrimage to Omaha, Nebraska to attend the 2018 Berkshire Hathaway Annual Shareholders' Meeting. As usual the Q&A session with Warren Buffett (age 87) and Charlie Munger (age 94) lasted a marathon six hours and covered a range of topics from interest rates, business valuation as well as Berkshire's recent joint venture with Amazon and J.P. Morgan focused on fixing the U.S. healthcare system. An estimated 40,000 people attended the meeting this year at the Omaha CenturyLink Center.

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 insurance analysts Gary Ransom (Dowling & Partners), Gregg Warren (Morningstar Inc.) and Jonathan Brandt (Ruane Cunniff & Goldfarb).

We believe that 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 singer Jimmy Buffett, Bill Gates, basketball player LeBron James, Arnold Schwarzenegger, boxer Floyd Mayweather, baseball player Alex Rodriguez and singer Katy Perry. 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

Buffett: The questions we get as we go through the next six hours or so will understandably relate to a lot of current events. We don't know any of the questions in advance, however I expect we may be asked about the Fed's policy, or whether we're seeing any inflation, or whether business is speeding up or down, or the threats we may face competitively in our businesses.

Anything goes in the questions, except we won't tell you what we're buying or selling. But sometimes it can be a question of missing the forest for the trees, and I would like to spend just a couple of minutes giving a little perspective on how you might want to think about long-term investments as opposed to the tendency to focus on what's happening today or even this minute.

To help me in doing that, I'd like to take you back to a little personal history. I have here a New York Times from the 12th May 1942. As you can see, I'm a little behind in my reading.

[Laughter]

If you go back to that time, it was about three months since we got involved in a war which we were losing at that point. The newspaper headlines were filled with bad news from the Pacific. I've taken just a couple of the headlines from the days preceding 11th March 1942, which was a momentous day for me.

We were in big trouble in the Pacific. On 10th March 1942, the news was bad – "foe clearing path to Australia." The stock market was reflecting this. I had been watching a stock called Cities Service Preferred, which was sold at $84 the previous year and sold at $55 two months earlier in January 1942 and now it was down to $40. So that night, despite these headlines, I said to my Dad that I'd like to pull the trigger and asked him to buy me three shares. That was all I had, that was my capital accumulated over the previous five years. So, the next morning my Dad bought three shares.

The next day was not a good day. The Dow Jones Industrials broke 100 on the downside, the equivalent of a 500-point drop today and I was in school wondering what was going on.

My Dad bought my stock right away in the morning, as I had asked him, and I paid the high for the day, $38.25 was my tick. By the end of the day it was down to $37, which was characteristic of my timing in stocks.

[Laughter]

But even though the War looked really bad until the Battle of Midway, the stock did rather well and went on to eventually be bought by the Cities Service Company for over $200 a share. But this is not a happy story. I made a total of $5.25 on this trade. When I had watched it go down to $27, it looked pretty good to take that profit.

What's the point of all this? Well, we can leave behind the Cities Service story and imagine yourself back on the 11th March 1942. As I said, things were bad in the European Theatre as well as in the Pacific. But everybody in this country knew that America was going to win the War. We'd gotten blindsided, but we were going to win the War. And we knew that the American system had been working well since 1776.

Imagine if you had invested $10,000 at that time and put it into the S&P 500. How much would that $10,000 now be worth if you had one premise – just like if you bought a farm, you'd buy and hold it and looked to the output of the farm to determine whether you had made a wise investment, or looked at the output of an apartment house you had bought to determine if you had made a wise investment.

Let's say you put the $10,000 in and owned a piece of American business, and never looked at another stock quote or listened to anyone giving you advice. How much money might you have now?

Today, you'd have $51 million. And you wouldn't have had to do a thing. You wouldn't have to understand accounting. You wouldn't have to look at your quotations every day, like I did that first day when I had already lost $3.75 by the time I came home from school.

All you had to do was figure that America was going to do well over time, that we would overcome the current difficulties, and that if America did well then American business would do well. You didn't have to pick out winning stocks or a winning time or anything of the sort. You basically just had to make one investment decision in your life. And that wasn't the only time to do it. I could go back and pick other times that would work out to even greater gains.

So, as you listen to the questions and answers we have today, just remember that the overriding question is "how is American business going to do over your investing lifetime?"

I'd like to make one other comment that's interesting. If you had taken that $10,000 and listened to the prophets of doom and gloom around you and instead you used the $10,000 to buy gold. For $10,000 you would have been able to buy about 300 ounces of gold in 1942. While American businesses were reinvesting in more plants and new inventions came along, you would have been able to go down every year to your safe deposit box and have your 300 ounces of gold. You could look at it, fondle it, but it would never produce anything. It was never going to produce anything. What would you have today? You would have 300 ounces of gold, just like you had in March 1942, and that would now be worth approximately $400,000.

So, if you had decided to go with a productive asset, which was earning money and reinvesting and paying dividends and maybe repurchasing stock, you would now have over 100 times the value of what you would have had with gold, a non-productive asset. For every dollar you would have made in American businesses you would have had less than a penny of gain by buying the store of value that people tell you to run to every time you get scared by the headlines. It's just remarkable to me that we have operated in this country with the greatest tailwind that you can imagine at our back. You can't really fail at it unless you buy the wrong stock or just get excited at the wrong time, but if you owned a cross-section of America and put your money in consistently over the years, there's no comparison against owning something that is going to produce nothing, or against jumping into and out of stocks.

Q: Do you think there's a win-win situation for both China and the U.S. or is the world just too small for both to win?

Buffett: The United States and China are going to be the two superpowers of the world – economically and in other ways – for a long, long time. We have a lot of common interests and like any two big economic entities, there are times when there will be tensions, but it is a win-win situation when the world trades, and China and the U.S. are the two big factors in that.

A nice thing about this country is that both Democrats and Republicans basically believe in the benefits of free trade. We will have disagreements with each other and disagreements with other countries on trade, but it's just too big and too obvious that the benefits are huge.

The world is so dependent on it in a major way for its progress that two intelligent countries will not do something extremely foolish. We both may do things that are mildly foolish from time to time, and there is some give-and-take involved obviously. But in 1970 U.S. exports and U.S. imports were both about 5% of GDP. We were selling 5% of our GDP and buying 5% of our GDP, basically. Now, people think we don't export a lot of things, but our exports are 11% of GDP, they have more than doubled as a share of this rising GDP. But the imports are about 14.5%, so there's a gap of 3% or thereabouts. I would not like that gap to get too wide. But when you think about it, it's really not the worst thing in the world to have somebody send you a lot of goods that you want and you hand them little pieces of paper. Because the balancing item is that if you have a deficit in your trade then you will have a surplus in your investment, so the world is getting more claim cheques on the United States, they buy our government securities, they buy our businesses.

Over time, you don't want the gap to get too wide as the amount of claim cheques you give out to the rest of the world could get a little unpleasant under some circumstances. But we have done remarkably well with trade, China has done remarkably well with trade, and the countries of the world have done remarkably well with trade. So, it is a win-win situation. And it only gets to be a problem when one side, or the other, may want to win a little bit too much and then you have a certain amount of tension. But we will not sacrifice world prosperity based on differences that arise on trade.

Charlie?

Munger: I think that both countries have been advancing, and of course China is advancing faster economically because it started from a lower base. And they've had a little more virtue than practically anybody else in the world by having a high savings rate.

Of course, a country that was stuck in poverty for a long, long time and assimilates the advanced technologies of the world and has a big savings rate is going to advance faster than some very mature country like Britain or the United States, and that's what happened. But I think we're getting along fine and I'm very optimistic that both nations will be smart enough to realize that the last thing they should do is halve the wealth of the other.

[Applause]

Q: Have you thought about giving other Berkshire managers more public exposure so future generations of successful business owners continue to bring deal opportunities to Berkshire like they have in prior decades?

Buffett: This sort of reminds me of what Tony O'Reilly remarked one time of the responsibility of a CEO: The very first job is to search through his organisation and find that person who has the initiative, the brains, the determination, and all the qualities to be his logical successor. And then fire the guy.

[Laughter]

I don't think the reputation of Berkshire being a very good home for companies, particularly private companies, is dependent on me or Charlie. There will be a little testing period for whoever takes over in that respect. But basically, we will have the money to do the deals and people can see how our subsidiaries operate in the future. And the truth is that some of the other executives are getting better-known.

I do not worry about the so-called "deal flow," which is a term I hate. I think that's dependent on Berkshire and not dependent on me. I've mentioned that my phone isn't ringing off the hook with good deals so apparently this big winning personality of mine is not delivering for you. So maybe the next person will get more calls.

The reputation belongs to Berkshire now. For somebody that cares where a business that their parents or maybe their grandparents lovingly built over decades ends up, we absolutely are the first call and we will continue to be the first call whether Charlie or I answer the phone, or somebody else does.

Charlie?

Munger: Well, a lot of the subsidiaries have for a long time already been making all kinds of acquisitions with people they know and we don't. So, it's already happening. And in fact, it's happening more there than it is at headquarters. So, you're getting your wish.

Buffett: There was one fellow who came to me many years ago and he had a wonderful business. He had been worried because he had seen a friend of his die and the problems that arose later when the managers to some extent tried to take advantage of the widow and it became a disaster. He said he had thought about it a lot the previous year and decided he didn't want to sell the business to a competitor who would be a logical buyer because they would fire all of his people up and down the line. He didn't want to do that to his people. And he didn't want to sell it to a private equity firm because he thought they'd leverage it up and he never liked leverage that much. And then they'd just resell it later on to somebody and it would be totally out of his control, and he wanted to keep running it himself.

He said "Warren, it isn't that you're such a great guy, it's just that you're the only one left."

[Laughter]

Berkshire will still be the only one left in many cases.

Q: You said "should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks." In light of the scandals at Wells Fargo, what magnitude of leakage would Berkshire consider changing vessels?

Buffett: Wells Fargo is a company that proved the efficacy of incentives, and it's just that they had the wrong incentives. And that was bad, and then they committed the much greater error – and I don't know how or who did it or when – of ignoring the fact that they had a faulty incentive system which was incentivising people to do things that were kind of crazy, like opening non-existing accounts, etc.

We know that people are doing something wrong at Berkshire right as we sit here. You can't have 377,000 employees and expect that everyone is behaving like Benjamin Franklin. I don't know whether there are 10 things being done wrong as we speak or 20 or 50, the important thing is that we don't want to incentivise any of that behaviour if we can avoid it. And when we find what is going on we have to do something about it. And that is absolutely the key to it. Wells Fargo failed to do this, and Salomon Brothers failed to do this.

The truth is we've made a couple of our greatest investments when other people made similar errors. The best investment I ever made in my Partnership years was American Express, which we bought in 1964 because somebody was incentivised to do the wrong thing in something called the American Express Field Warehousing Company.

We bought a very substantial amount of GEICO, which became half of the Partnership because somebody was incentivised to meet Wall Street estimates of earnings and growth and they didn't focus on having the proper reserves.

That caused a lot of pain at American Express in 1964 and it caused a lot of pain at GEICO in 1976. It caused the layoffs of a significant portion of the workforce. But they cleaned it up and look where American Express has moved since that time, look where GEICO has moved since that time.

The fact that you're going to have problems at some very large institution is not unique. In fact, all the big banks have had troubles of one sort or another. I see no reason from both an investment standpoint and a moral standpoint why Wells Fargo as a company going forward is in any way inferior to the other big banks with which it competes.

I like it as an investment. I like Tim Sloan (Wells Fargo CEO) as a manager. He is correcting mistakes made by other people, just like I tried to correct mistakes at Salomon Brothers.

I mean, that is going to happen. You try to minimize it. Charlie says that an ounce of prevention isn't worth a pound of cure, it's worth about a tonne of cure, and that we ought to jump on everything. He's pushed me all my life to make sure that I attack unpleasant problems that surface, which sometimes isn't easy to do when everything else is going fine.

At Wells Fargo, they did what people at every organization have sometimes done, but it got accentuated to an extreme point. But I see no reason to think that Wells Fargo going forward is other than a very large well-run bank that had an episode in its history that it wished it didn't have. But GEICO came out stronger and American Express came out stronger.

Charlie?

Munger: Well, I agree with that. I think Wells Fargo is going to be better going forward than it would have been if these problems had never been discovered.

Buffett: Or happened.

Munger: Yeah. I think Harvey Weinstein has done a lot for improving behaviour too.

[Laughter]

It was clearly an error and they're acutely aware of it and acutely embarrassed and they won't let it ever happen again. If I had to say which bank is more likely to behave the best in the future, it might be Wells Fargo.

Q: Food distributor McLane's operating margins have halved since Berkshire acquired it. Do you expect the margin structure of that distribution business to eventually get back to where it was or is this the new normal?

Buffett: I don't know the answer about the future but there's no question that the margins have been squeezed. They were very, very narrow, they were about $0.01 on $1 pre-tax and they have been squeezed from there. Payment terms get squeezed. And in some cases, we have fairly long-term contracts.

The situation is actually worse than it looks because within McLane we have a liquor distribution business in a few states and that business has actually increased its earnings moderately and we have added to that business.

So, within McLane's figures, there's about $70 million or so pre-tax from the liquor part that had nothing to do with the massive food distribution business. So, the decline in food distribution is even greater. It's become much more competitive. If you look at our competitors, they're not making much money either. And that's capitalism – there comes a point the customers says "I'll only pay X" and you have to walk away. There's a great temptation when you're employing thousands of people and you have built distribution facilities to meet irrational competition. But that is capitalism.

The earnings went up quite a bit from the time we bought it and we still earn more than we did then, but as I said, a fair amount of that is actually coming from liquor distribution activity in about four states that we purchased and that are very well-run.

We will do our best to get the margins up but your guess is almost as good as mine, or maybe better than mine as to what margins will be in that distribution business five years from now.

It's a very essential service. We do $40-some billion and we move more of the product of all kinds of companies than anybody else. But when you get Kraft Heinz or Philip Morris or whomever it may be on one side of the deal and you get Walmart and 7-Eleven on the other side of the deal, sometimes they don't leave you very much room in between.

Charlie?

Munger: I think you've described it very well Warren.

Q: I am interested to hear more about your recently announced partnership with Amazon and J.P. Morgan to take on the U.S. healthcare industry?

Buffett: Well we don't plan to start healthcare companies or insurers or anything like that. We simply have three organizations with leaders that we mutually admire and trust. And we hope to get something done. Charlie would probably correctly say it is almost impossible to change a system which was taking 5% of GDP in 1960 and now is taking close to 18% of GDP.

We have a hugely non-competitive medical cost in American business versus any country in the world. There were some countries that were around our 5% of GDP when we were at 5% in 1960. But we managed to get to 18% of GDP without them going beyond 11% or so. Literally, in 1960, we were spending $170 per capita on medical costs in the United States. And now we're spending over $10,000 per capita. So, there is a cost problem. It is a tapeworm on American businesses and their global competitiveness.

I would expect we would announce a chief executive for the program before too long. A key part of it is whether that person will have the imagination and support of people that will enable us to make any kind of significant improvements to the system. It won't be easy. The motivations of this program are not primarily profit-making. We want our employees to get better medical service at lower costs. We think that there may be ways to make some significant changes but we know that the resistance will be unbelievable. And if we fail, we've at least tried.

But the idea is not that I will be able to contribute anything in some breakthrough moment by reading a few medical journals or changing something that is embedded in the medical system.

Whether we can bring the resources and the right CEO is terribly important, and then support that person and somehow figure out a better way for people to continue to receive better medical care in the United States without that 18% of GDP spend going to 20% or 22%. We will see what happens. If you were Ajit Jain actuarially figuring it out you would not bet on us. But I think there is some chance we will do something significant and we are positioned better than most people to try.

Charlie?

Munger: There is some precedent for success in this public service activity. If you go back many decades, John D. Rockefeller using his own money made an enormous improvement in American medical care. In fact, there's never been any similar improvement done by any one man since. So, Warren having imitated Rockefeller in one way is just trying another, and maybe it'll work.

Buffett: Rockefeller certainly lived a very long time. So, I am actually trying to imitate him in three ways. We'll see what happens but we are making a lot of progress, and I think we'll probably have a CEO within a couple of months. But if we don't have one, we're not going to pick somebody just because we want to meet any deadline or anything like that. If it was easy, it would have already been done. There's no question about that.

Munger: It is never easy.

Buffett: No. But it should be tried.

[Applause]

Q: When will you start showing the annual performance on the $25 billion in equities that Ted and Todd manage? Can you state if either Ted or Todd has beaten the S&P 500 Index over the last 5 years?

Buffett: We probably won't report their individual performance. But you can be sure that I have an enormous interest, as does Charlie, in how much we think they both contribute to Berkshire. They've been terrific and they not only have the intellect and the record, but they are exceptional human beings. Todd has done a tremendous amount of work, for example, on the healthcare project. I've given Ted several things which he's done better than I could do them myself.

The record since inception is almost identical for the two of them. They have received some incentive compensation, which they only get if they beat the S&P. Their performance has been better than what I've done. So naturally, I can't criticize it. They were two very, very good choices.

Charlie?

Munger: You did report in the previous year. You just didn't do it this year.

Buffett: The problem that all of us have is size. It's harder to run even $12 billion or $13 billion, frankly, than it is to run $1 billion. And if you're running $1 million or something of that sort it's a whole different game. You have to agree with that Charlie?

Munger: Of course.

Q: Duracell's profits in 2017 were still well below what it earned as a subsidiary of P&G. Does this contribution simply reflect the commoditization of the category, given the entry of Amazon into the battery market? I did see that Duracell's earnings were up in the first quarter. Is that a sign of a more meaningful contribution in 2018 and beyond?

Buffett: Duracell should be earning more money than it is now. It will be and as you mentioned it's well on its way there but it is not earning an appropriate amount now based on the history of the company. I was on the board of Gillette when Gillette bought Duracell and I've seen what it does when it is managed to its full extent. I saw what Jim Kilts did with Gillette when he ran it.

The Duracell brand is very strong. The product line is very strong. And we are starting to make more money and we should. I believe we will earn what the property is capable of earning and we should be earning that relatively soon. But you're absolutely right that from a profit standpoint it is underperforming. But I like the Duracell deal absolutely as much as when we made it.

Charlie?

Munger: I like it better than you do.

Buffett: Duracell is our kind of business.

Q: Good morning, I have a question related to the U.S. bond market. How do you think about the increase in the supply of bonds coming to auction? How might this impact yields or interest rates?

Buffett: The answer is I don't know and the good news is nobody else knows including members of the Federal Reserve. There are a lot of variables in the picture and the one thing we know is that we think long term bonds are a terrible investment at current rates, or anything close to current rates.

Basically all of our money that is waiting to be used is in treasury bills that have an average maturity of four months or something like that. The rates on these have gone up lately so that in 2018 my guess is we'll have $500m in pre-tax income from these bills. It's not because we want to hold them, we are waiting to do something else.

Long term bonds are basically, at these rates, ridiculous. The Federal Reserve is telling you we want 2% inflation and the very long bond is not yielding much more than 3%. Of course if you are an individual and pay tax on it you are going to have some income tax. Let's say it brings your after-tax return to 2.5%, the Federal Reserve is telling you that they will do everything in their power so you don't earn more than half a percent per year of inflation adjusted income.

I would stick with productive businesses or certain other productive assets. What the bond market does in the next year, you have trillions of dollars in the hands of people who are trying to guess which maturity will be the best to own and all that sort of thing. We don't bring anything to that game to think we have an edge.

Charlie?

Munger: Well, really it wasn't fair for our monetary authority to move the savings rate paid to mostly old people with savings accounts as much as they did, but they probably had to do it to fight the great recession appropriately. It clearly wasn't fair and the conditions were weird. In my whole lifetime it's only happened once that interest rates went down so low and stayed low for a long time.

It was quite unfair to a lot of people and it benefitted the people in this room enormously because it drove asset prices up including the price of Berkshire Hathaway stock. So, we are all a bunch of undeserving people.

And I hope that we continue to be so.

[Laughter]

Buffett: At the time this New York Times newspaper came out in 1942 the government was appealing to the patriotism of everybody. As kids we went to school and bought savings stamps, they first called them U.S. war bonds and then they called them U.S. defence bonds and then they called them U.S. savings bonds. You would put up $18.75 and got back $25 in ten years. This was 2.9% compounded. Even an eleven-year-old could understand that this was not a good investment. But we bought them, as part of the war effort.

The government knew that inflation was coming from what was occurring during World War II, we were actually experiencing massive Keynesian type behaviour. Not because we elected to follow Keynes but because the war forced us to have this huge deficit which took our debt up to 120% of GDP. It was the greatest Keynesian experiment of all time which sent us on a wave of prosperity – there are some accidental benefits sometimes.

Q: Can you talk about the barriers to entry when addressing healthcare costs in the U.S. given the recent announcement to work with J.P. Morgan and Amazon? Do companies operating in the healthcare industry deserve higher multiples as a result of these barriers?

Buffett: Well, although the system may have a moat against intruders it doesn't mean that everybody operating within the system has individual moats, for one thing. If this new triumvirate succeeds at all, we are attacking an industry moat.

But we are trying to figure out a better way of doing it and making sure that we're not sacrificing care, and the goal is to improve care. And like I say, we'll do our best, but I hope if we fail, I hope somebody else succeeds.

Charlie?

Munger: Well, I suspect that eventually when the Democrats next control both houses of Congress and the White House, we will get single payer medicine. And I don't think it's going to be very friendly to many of the current pharmacy benefit managers, and I won't miss them.

[Laughter]

Q: Elon Musk said on Tesla's recent call that "moats are lame. They are nice in a sort of quaint vestigial way. And if your only defence against invading armies is a moat, you will not last long. What matters is the pace of innovation. That is the fundamental determinant of competitiveness." Is Elon right?

Buffett: It does seem like the pace of innovation has accelerated in recent years. There's been more moats that have become susceptible to invasion. And there are probably places where the moat is as strong as it's ever been.

You certainly should be working on improving your own moat and defending your own moat all of the time. Elon may turn things upside down in some areas. I don't think he'd want to take us on in candy.

[Laughter]

But you can look at something like Garanimals children's clothing out there in the other room, and it won't be technology that takes away the business. Maybe something else that catches the young kids' fantasy or something. But there are some pretty good moats around.

Being a low-cost producer, for example, is a terribly important moat. And at something like GEICO, technology has really not brought down costs that much. There's a couple of companies that have costs as low as ours but among the big companies we are the main low-cost producer, and that is not bad when you're selling an essential item.

Q: Berkshire has become a leader in real estate brokerage in the United States. However, if fees charged by stock market active managers are a drag on investor performance, real estate commissions are no different and perhaps more detrimental. How do you think about this?

Buffett: Well, the purchase of a home is the largest financial transaction that a significant percentage of the population will make. A lot of people need a lot of attention and you can show a lot of houses before you sell one. If you look at our close to 50,000 agents now, I think they make a good living or a decent living.

But I would say that people who manage money make a whole lot more money with perhaps less contribution to the welfare of the person that they're dealing with. So, I don't think that there are unusual profits involved in being a real estate agent.

We like it because it's fundamentally a good business. But here we are doing 3% of all the real estate transactions in the United States and we're making maybe $200 million a year. We won't get into what the comparative efforts are in Wall Street to make $200 million.

But I think I have to tell them about Roy Tolles a little bit on this. Roy Tolles, Charlie's partner many, many years ago decided he was going to buy a house in San Marino. He's going to have a number of kids. So, he sent his wonderful wife Martha out and for 6 months he had her look at houses in San Marino.

And this was many years ago, and if the house was priced at $150,000, he would make an offer to the agent of $75,000. And of course, the real estate agents were going crazy that they offering $75,000 for something listed at $150,000. And then, finally, when she found one that they both really liked he had her offer something like $120,000. And the real estate agent was so happy to get a bid that was in the general area of the offering price he would work very hard on the seller to take that bid because he knew he did not want six more months of Roy bidding at the lower prices.

So, you don't sell them on the first trip. Real estate agents earn their money and they earn it in a perfectly respectable and honourable manner in terms of what they get paid. And as in every single industry there is, there can be excesses or mistakes or that sort of thing.

But we will continue to buy more real estate brokerages. In fact, we'll probably have another couple to announce before long. And we will feel that if we get to where we're doing 10% of the real estate brokerage business in the country and we're making $600 or $700 million a year pre-tax we will not think that's a crazy amount of money to make for enabling 10% or 5m people to change their homes every year in the United States.

Charlie?

Munger: Well, the commissions in real estate may get unreasonable if you're talking about $20 million houses. It seems a little ridiculous to pay a 5% commission on a $20 million transaction. But do any of us really care if the kind of people who pay $20 million for a house have a slightly higher commission? The ordinary commission is pretty well-earned.

Buffett: We have a number of brokerage firms. Their average transaction in one section of the country would be close to $600,000 a unit. But in most of our real estate operations, the average price is more like $250,000 or something in that area. And you can show a lot of houses to make one $250,000 sale. You split the fee between the listing agent and the buyer's agent.

So, it does not strike me as excessive. And incidentally, it doesn't strike the people in the industry that way. It's not been particularly susceptible to online-type substitution or something of the sort. The real estate agent earns their commission in most cases. But Charlie has had more experience with $20 million houses, so he will comment on that area.

Q: Can Kraft-Heinz increase their current level of profits over the next ten years given the changes in consumer preferences occurring and an already high margin? Is there anything in their portfolio besides ketchup that is enjoying growing demand?

Buffett: Well, the fact is you're asking me whether Kraft Heinz is a good buy and we don't want to give information on marketable securities in that manner. But yes, there are a number of items besides ketchup that are enjoying growing demand and some vary quite a bit by geography.

There's enormous differences in the penetration of various products in the portfolio. Consumer packaged goods are still a terrific business in terms of return on invested assets, but the population worldwide grows at a fairly minor rate. And people are going to eat about the same amount and there is some more willingness to experiment.

It's a very good business, and there are new products coming out constantly. It's not one where you're going to get terrific organic growth, but it never has been. And I like the business, and we own 26% or so of it. But there are a number of items within Kraft Heinz that enjoy fairly healthy growth. I think you'd find that at most food companies and I think you'd find very good returns on invested tangible net assets at those businesses.

Q: Do you believe that people in this country are more politically divided today than 50 years ago? Or is it just social media and media in general that blows this divide out of the proportion? And if you do believe the divide has grown, what words of wisdom do you have to possibly help remedy it?

Buffett: Multiple times in my life, people have felt the country was more divided than ever, and I've gone through periods where people I knew and admired thought that because the other party was in power, that there never would be another election. I've heard everything.

Now the interesting thing is this paper from 1942 [holds up newspaper], since then, there have been 14 American Presidents. Just since my young venture into the stock market at 11, I've lived under 14 of the 44 Presidents the United States has had. And 14 of the 44 have been during this period when that $10,000 became $51 million. Seven have been Republicans. Seven have been Democrats. One has been assassinated. One has resigned under pressure. It works. If you'd told me at the start you'd have a Cuban missile crisis and you'd have nuclear weapons and you have a financial panic and you'd have many recessions and you'd have war in the streets in the late ‘60s from a divided country, you'd say, "Why the hell are you buying stocks?" And through it all, America, in fits and starts, America really moves ahead.

We survived the Civil War.

If you go back 263 years, Thomas Jefferson was 12 years old, and there was nothing here. You've flown in from all over to Omaha today, and you flew over a country with more than 75 million owner-occupied homes and 260 million vehicles and great universities and medical systems and everything, and it's all a net gain in less than 3 of my lifetimes.

We've had these events since I showed up buying my first stock. This country really, really works, and it always will have lots of disagreements. And after every election, you'll have people feeling the world is coming to an end and “how could this happen?”

I remember my future father-in-law, in 1952, he wanted to have a talk with me before his daughter and I got married. So, kind of reluctantly, I sat down with him and he said, Warren, he said there's just one thing I want to tell you. He said, "You're going to fail."

[Laughter]

He said, "The Democrats are going to get in – they're going to take over the country and you're going to fail, but don't feel responsible for it because it's not your fault." I mean, he wanted to absolve me from this feeling that, while his daughter was starving to death, it was my fault.

And I kept buying stocks and doing a little bit better all the time. So, I've seen a lot of American public opinion over the years. I’ve seen a lot of media commentary. I’ve seen the headlines. And when you get all through with it, this country has 6x the per capita GDP that it had when I was born. Everybody in this room is living better in multiple ways than John D. Rockefeller Sr. was, who was the richest person in the world during my early years.

This is a remarkable, remarkable country and we found something very special.

[Applause]

I would love to be a baby being born in the United States today. Okay, Charlie you give the other side of this.

[Laughter]

Munger: Well, there's a tendency to think that our present politicians are much worse than any we had in the past, but we tend to forget how awful our politicians were in the past.

[Laughter]

Q: What formula do you use to determine intrinsic value?

Munger: Well, I can't give you a formulaic approach because I don't use one. I just mix all the factors, and if the gap between value and price is not attractive, then I go on to something else.

And sometimes it's just quantitative. For instance, when Costco was selling at about 12x or 13x earnings, I thought that was a ridiculously low value just because the competitive strength of the business was so great, and it was so likely to keep doing better and better. But I can't produce a formula for you. On Costco I liked the cheap real estate. I liked the competitive position. I liked the way the personnel system worked. I liked everything about it. And I thought, even though it's 3x book or whatever it was then, that it's worth more.

If you want a formula for valuing a business, you should go back to graduate school. They'll give you lots of formulas that won't work.

[Laughter]

Buffett: This is the longest we've ever gone in the Berkshire meeting without Charlie getting to the point that he prefers Costco to Berkshire.

[Laughter]

Q: Do you think Apple would do better spending $100 billion on buybacks or buying other productive businesses the way you have generally preferred? $100 billion is a lot of money.

Buffett: I used to think so.

[Laughter]

Apple has an incredible consumer product, which you understand a lot better than I do.

They shouldn't buy back their shares at all, unless they think that they're selling for less than they're worth. And if they are selling for less than they're worth and they have the money and they don't see an acquisition that's even more attractive, they should buy back their shares.

I think it's extremely hard to find acquisitions that would be accretive to Apple that would be in the $50 billion or $100 billion or $200 billion range.

We own 250 million or so shares. They have, I think, 4.923 billion shares outstanding, or something like that. And mentally, you can say we own 5% of it. But I figure, with the passage of a little time, we may own 6% or 7% simply because they repurchase shares. I love the idea of having our 5% grow to 6% or 7% without us laying out a dime. I mean, it's worked for us in many other situations.

But you have to have some very, very, very special product which has an enormously widespread ecosystem and the product is extremely sticky and all that sort of thing. And they're not going to find $50 billion or $100 billion acquisitions that they can make at a remotely sensible price. They may find it, who knows. But as I look around the horizon, I don't see anything that would make a lot of sense for them in terms of what they'd have to pay and what they would get. Whereas I do see a business that they know everything about and whether they may or may not be able to buy at an attractive price when they repurchase their shares, that remains to be seen.

We would love to see Apple go down in price. Put it this way, if Andrew [Ross Sorkin] and Charlie and I were partners in a business that was worth $3 million, so each of us had $1 million interest in it. If Andrew offered to sell out his 1/3 interest at $800,000 and we had the money around, we'd jump at the chance to buy him out.

I mean, it's so simple. And if you want $1.2 million for it, we wouldn't pay it to him. It's very simple math, but it gets lost in all of these discussions. And of course, like I say, Tim Cook can do simple math, and he can probably do very complicated math, too. So, we very much approve of them repurchasing shares.

Charlie?

Munger: I think generally speaking in America, when companies go out hell bent to buy other companies, they're worth less after the transaction is made than they were before.

Buffett: And that does not mean we approve of every buyback at all.

Munger: No, no, no. I think some people just buy it to keep the stock up. And that, of course, is insane and immoral. But apart from that, it's fine.

[Laughter]

Q: Given that all three credit card firms benefit from powerful network effects along with valuable brands, were there any particular reasons Berkshire would not ramp up its stakes in Visa and MasterCard to more meaningful levels, especially during those years when American Express was struggling?

Buffett: When Ted and Todd bought Visa and MasterCard, they were significant portions of their portfolio. There was no embargo or anything on them owning those stocks because we had a big investment in American Express. And I could have bought them as well, and looking back, I should have.

I think American Express has done a fabulous job, and now we own around 17% of a company that, not that long ago, we may have owned 12%. We've done it without spending a dime and it's a company that has really done a fantastic job in a very competitive field where lots of people would love to take their customers away from them. But they have more customers than ever and their customers are spending more money than ever.

And the international growth has accelerated, the small business penetration is terrific, it's really quite a business. And we love the fact we own it. Like I said, it didn't preclude me in any way from buying MasterCard or Visa. And if I'd been as smart as Ted and Todd, I would have.

Charlie?

Munger: Well, we would have been a lot better in all of our stock thinking if we could do it in retrospect. But at the time, we had a big position in American Express. And there is one tiny cloud on the horizon of the payments processors, and that is the system of WeChat in China. And I don't have a faintest idea how important that cloud is, and I don't think Warren does either.

Buffett: No. No. Payments are a huge deal worldwide. And then you've got all kinds of smart people working in various ways to change the payment arrangements.

Munger: To destroy what we have now.

Buffett: Sure, sure. But if you look at American Express, it is a remarkable company. And you can see in different countries, in different ways, different things are going on. And there are a lot of people that will play the game of gaming the system and switch from one to another based on the rewards on this card or that, and all of that sort of thing. But there also is I think a very substantial group for which American Express does something very special. And they keep capitalizing on that premier position with that group, and they're doing it successfully around the world. And you've seen in the first quarter, where in Britain and Mexico and Japan, you're seeing gains of 15% or better in local currencies.

And the base is not tiny, but it's not huge. So, there's a lot of room left to go in that, and the small business penetration is good. The loan portfolios behaved sensationally compared to really just about anybody.

So, I like very much our holdings of American Express.

We used to buy things that were certain failures like textiles and second-rate department stores and trading stamps in California. Now we just face things that face real difficulty, so we're actually moving up the ladder.

[Laughter]

Q: Mr. Buffett, my name is Daphne Collier Star, I am eight years old and live in New York City. I've been a shareholder for two years, and this is my second Annual Shareholders Meeting. Could you please explain why Berkshire's largest recent investments have departed from your old capital-efficient philosophy?

Buffett: You're killing me Daphne. [Laughter]

Munger: I'm certainly glad she's not nine years' old.

[Laughter]

Buffett: I'm just sitting here thinking, which of the six panellists we're going to bump next year and put you in.

Well, I thought I was doing well when I bought that Cities Service at age 11. The answer is that we always prefer businesses that earned terrific returns on capital like See's Candy when we bought it. And American Express earns a terrific return on equity and has for a very long time. The fact that we buy companies like Burlington Northern means, essentially, we can't get more money deployed in capital-light businesses at prices that make sense to us, and so we have gone into more capital-intensive businesses that are good businesses. But wouldn't it be wonderful if we could run the railroad without rail, without trains, and track, and tunnels, and bridges and a few other things.

We get a decent return on the capital-intensive businesses. We bought most of them at very decent prices, and they've been run very well since we bought them. We still love a business that takes very little capital and earns high returns and continues to grow and requires very little incremental capital. We can't deploy as much money as we have in doing that. And so, is the second-best choice still a good choice? The answer is yes. It's just not as good as the best choice.

Charlie?

Munger: Yes. I like the aspiration of that young lady. She basically wants her royalty on the other fellow's sales.

And of course, that's a very good model. And if everybody could to do that, well, nobody would do anything else. The reason we're satisfied with our utility returns and our railroad returns is they're quite satisfactory. I wish we had two more just like them. Don't you, Warren?

Buffett: Yes, definitely.

Q: The circulation of Berkshire's newspapers has declined. What do you expect in the newspaper business?

Buffett: The problem has been that although there are about 1,300 daily newspapers in the United States, there were 1,700 not that long ago. No one except The Wall Street Journal, The New York Times and now probably the Washington Post has come up with a digital product that really, in any really significant way, will replace the revenue that is being lost as print newspapers lose both circulation and advertising.

But I would like to see daily newspapers actually be economically viable because of the importance to society. But it's happening to 1,300 newspapers throughout the United States and it happens in small towns where you would think that the alternative sources of information would not be that good. It happens every place.

And the Journal, the Times and probably the Post have a viable economic model in the digital world. I'm almost certain it will continue to shrink in the print world. But the digital world will be big enough and they'll be successful enough so that they have, in my view, a sustainable business model. But it is very difficult to see how the print product survives over time. And that's, I'm afraid, true of 1,300 newspapers in this country.

Charlie?

Munger: Well, the decline was faster than we thought it was going to be. So, it was not our finest bit of economic prediction. And I think it's even worse. I think, to the extent we miscalculated, we may have done it because we both love newspapers and have considered them so important in our country. These little local newspaper monopolies tended to be owned by people who behaved well and tended to control the politicians. And we're going to miss these newspapers if they disappear. We're going to miss them terribly. And I hope it doesn't happen, but the figures are not good.

Q: The capitalization of crypto currencies approached that of Berkshire and Apple last year and clearly, the idea behind crypto will affect conventional banking groups where Berkshire is a shareholder. What factors caused you to say that crypto is a bubble?

Buffett: If you bought gold at the time of Christ and you figured the compound rate on it, it may be a couple tenths of 1%. It essentially is not going to deliver anything other than supposed scarcity because you can only mine so much, but so what? I mean, what does it produce itself? The cheque is a wonderful idea.

Just imagine how the world would be without being able to write cheques or have wire transfer funds. But it doesn't make the cheque intrinsically itself worth a lot of money.

I think that any time you buy a non-productive asset, you are counting on somebody else later on to buy a non-productive asset because they think they can sell it to somebody for more money. It's been tried with tulips and it's been tried with various things over time and it does come to a bad ending. You can think of raw land. I mean, the Louisiana Purchase was say, $15 million for 800,000 or so square miles of land. In fact, you're sitting on land that came with the Louisiana purchase. And so, we paid $20 a square mile and 640 acres in a square mile and you're down to $0.03 or something per acre. So that was a pretty good purchase of what was then a non-productive property.

In the end, you make your money out of productive assets. If you buy a farm, you try to estimate what amount per acre of soybeans or corn or whatever may be raised, how much you have to pay the farmer that farms it for you and what your tax bill will be. And you make a conclusion based on what the asset itself will produce over time. That's an investment. When you buy something because you're hoping tomorrow morning you're going to wake up and the price will be higher, you need more people coming into it than are leaving.

And you can get that and it will feed on itself for a while and sometimes for a long while and sometimes, to extraordinary numbers but they come to bad endings, and crypto currencies will come to a bad end. And along with the fact that there's nothing being produced in the way of value from the asset, you also have the problem that it draws in a lot of charlatans.

It's something where people who are of less than stellar character see an opportunity to clip people who are trying to get rich because their neighbour's getting rich, buying stuff neither one of them understands. It will come to a bad ending. Charlie?

Munger: Well, I like crypto currencies a lot less than you do. [Laughter]

And so, to me, it's just dementia and I think the people who are rational traders going into trading crypto currencies, it's just disgusting. It's like somebody else is trading turds and you decide you can't be left out. [Laughter and applause]

Q: In your 1999 article in Fortune Magazine, you stated your belief that after tax corporate profits were unlikely to hold much above 6% of GDP for any sustained period due not only to competition but also to public policy. Since 2008, after-tax corporate profits have been 8% to 10% of GDP. Do you believe that is a permanent shift in the U.S. economy or will corporate profits revert back to the 4% to 6% of GDP range that was normal in the 20th century?

Buffett: Well, there's been an interesting development during that period. You now have the four largest companies by market value in the United States that essentially don't need any net tangible assets. And if you go back many years and looked at the largest companies, it would be AT&T and General Motors and those companies required lots of capital in order to produce earnings. American industry has gotten incredibly more profitable in aggregate in the last 20 or 30 years.

Those four companies comprise close to 10% of the market value of the entire publicly traded corporate America, and they don't take any money, basically. That is a changing world and they will earn even more money with the tax rate going down.

Carnegie built a steel mill and then he paid it off, then he borrowed a little money and he built another steel mill and all of it was running, but it was enormously capital-intensive. AT&T was enormously capital-intensive. But now, the money is in the asset-light businesses. Huge money is in the not only asset-light business but the negative asset. IBM has a net minus tangible net worth. There's nothing wrong with that, it's terrific, but it is not the world we lived in 30 years ago. And in that sense, I didn't see that coming in 1999 when I wrote whatever I wrote there.

It hasn't changed the profitability of the asset-heavy companies. If you take the five most capital-intensive industries in the '90s, I don't think you'll find that their earnings on tangible assets have increased a lot.

Charlie?

Munger: There's also a lot of financial engineering that's raised leverage even on the capital-intensive businesses. Warren may have not predicted the shift when you quoted him in your article, but he didn't invest wrong and so it just shows it's hard to make these economic predictions.

Q: How do you go about attempting to forecast the degree of future success of one specific product in a good business versus another, such that you invest in American Express and Coca-Cola rather than Diners Club or RC Cola, for example?

Buffett: The interesting thing when American Express went into competition with Diners Club and with Carte Blanche, was instead of charging less than Diners Club and going in figuring they were going against the established kind, they went in it at a higher price. If you were a salesperson out with somebody and you pulled out that American Express card with that Centurion on it, you looked like you were J.P. Morgan. If you pulled out a Diners Club card you look like a guy that was writing cheques from one month to the next.

A fellow named Ralph Schneider and Al Bloomingdale developed the Diners Club and they were very smart about getting there first but they weren't smart about their branding.

There are all kinds of colas that came after Coke but if you offer me RC Cola and say I'll give it to you at half the price of Coca-Cola, I'm still going to choose the Coca-Cola. This is a product that sold for $0.05 an ounce in 1900. And now if you buy it today you're not paying that much more, so what you pay has gone dramatically down in inflation-adjusted money. So, it is a bargain product.

You have to look at See's Candy. If you lived in California and you were a teenage boy and you went to your girlfriend's house and you gave a box of candy to her and she kissed you, you lose price sensitivity at that point. So, we really want products where people feel like kissing you rather than slapping you.

We're betting on the ecosystem of Apple products, led by the iPhone, and I see the same characteristics in that, which makes me think it's extraordinary, but I may be wrong. So far, we've been right on American Express and Coca-Cola.

American Express had this huge salad oil scandal in 1960. And we were really worried about whether the company would survive, but nobody quit using the card, nobody quit using the traveller's cheques. And they charged a premium price for their traveller's cheques. So, there are things you can see around consumer products that sometimes can give you a pretty good insight into the future and then sometimes, we make mistakes.

Charlie?

Munger: I've got nothing to add except that if we did it over and had the chance to go into Coca-Cola right after it was invented, we probably would have said no. It would have looked kind of silly to us.

Buffett: He's right. I mean, we don't foresee things that we haven't got a lot of evidence on. We want to see how a consumer product behaves under a lot of different circumstances.

There is a book by Phil Fisher called 'Common Stocks and Uncommon Profits', it's one of the great books on investing. It talks about the scuttlebutt method and how you can learn a lot just by going out and wearing out some shoe leather. Now they call them channel checks or something like that, but you can get a feel for some products.

It's an important investing technique. Ted and Todd do a lot of that and they have some people who help them out doing it too. Charlie has done it with Costco. He is finding new virtues in Costco all the time and he's right incidentally. Costco has an enormous appeal to its constituency – they surprise and delight their customers and there is nothing like that in business.

Q: Warren, you're stepping down from the Kraft Heinz board at a time when the company is looking to do a large acquisition, Unilever, for example. Do you fundamentally disagree with the combative nature of hostile bids, activist investing and competitive proxy contests?

Buffett: Well, we will not make hostile offers ourselves. I don't think it's evil to conduct a hostile offer for a company. But we won't do it and we don't want to get into that. We like being liked by the management teams that join us because we're counting on them to run the company. We're not bringing in a whole bunch of people to change businesses and we seldom take a position opposite the management, very seldom on anything involving a proxy, a contest of sorts, but we don't rule it out.

We withheld a vote at Coca-Cola a few years ago to express our opinion. In some cases, we have different opinions about who should run the company or whether compensation is appropriate or matters of that sort. The stockholders still own the company.

Charlie?

Munger: I've got nothing to add to that. I don't envy these people that are in these unfriendly uproars all the time. Imagine doing that after you're already rich, it's insane.

Buffett: The question was asked in reference to Kraft Heinz. The people of 3G are great, great managers. They've been wonderful partners. I have made a determination before we got involved that I was going to be on no more public boards. I've been on 19 of them and it takes a lot of time and they asked me if I could go on for a while and I did.

Being on a board takes around seven days a year and if you're on a bank board, it may be quite a bit more than that. At 87, I think I've now learned what happens and I don't want to spend 7.5 days a year when I can call people that I trust and admire who are on the board and in five minutes find out what's going on. So, we are their partners and delighted to be their partners. We have two people on the board of Kraft Heinz and they can do the traveling and I can stay home.

Q: Warren, you and Charlie have been critical of business schools in the past and what they teach. What do you think of programs and designations such as CFA, CFP etc.?

Buffett: I went to three business schools and at each I found a teacher or two that I really got a lot out of. We are not anti-business school here at all. We do think that the efficient market theory that was almost a religion 40 years ago strayed pretty far from the reality of investing.

What we do is not a complicated business, it's got to be a discipline business, but it does not require a super IQ or anything of the sort. There are a few fundamentals that are incredibly important and you do have to understand accounting and it helps to get out and talk to consumers and start thinking like a consumer in many ways and all of that.

I think that if you want to do it find a few great teachers and they really change the way you see the world to some degree. You can find them in academia and you can find them in ordinary life. I've been extraordinarily lucky in having great teachers including Charlie. Charlie has been a wonderful teacher, and any place you can find somebody that gives you insight into things you didn't understand before, maybe make you a better person than you would've been before, that’s very lucky and you want to make the most of it. If you can find it in academia make the most of it and if you can find it in the rest of your life, make the most of it.

Charlie?

Munger: Well, when you found Ben Graham, he was unconventional and he was very smart and of course that was very attractive to you and you found with work you could make a lot of money while sitting on your ass so of course you were an instant convert. Before he died, Ben Graham recognized the exact way he sought undervalued companies wouldn’t necessarily work for all times, under all conditions and that’s certainly the way it works for us, we gradually morphed into trying to buy better companies that were under-priced and sell the lousy companies and of course that worked pretty well for us.

So, we had to learn a different game and that’s a lesson for all you young people; if you are going to live a long time, you have to keep learning. What you formerly knew is never enough so if you don't learn to constantly revise your earlier conclusions and get better ones, well you are like the one-legged man in an ass kicking contest.

[Laughter]

Buffett: If anybody has suggestions for another metaphor send them to me.

[Laughter]

Munger: I finally figured out why the teachers of corporate finance often teach a lot of stuff that's wrong. When I had some mild eye troubles early in life I consulted a very famous eye doctor and I realized that his clinic was doing a totally obsolete cataract operation. They were still cutting with a knife after better procedures had been invented and I said why are you and a great medical school performing absolute obsolete operations. He said Charlie, it's such a wonderful operation to teach.

[Laughter]

That's what happens in corporate finance. You give them a formula, you present the problem, they use the formula. You get a real feeling of worthwhile activity; there is only one trouble, it's all balderdash.

Buffett: Whenever you hear a theory described as elegant, watch out!

Q: Are you going to invest in Amazon and Google, which have what you call a very durable competitive advantage?

Buffett: Well we have certainly looked at them. And we are looking for things where we do get into the durability of competitive advantage and whether we think that our opinion might be better than other people's opinion in assessing the probability of the durability.

But the truth is, I've watched Amazon from the start and I think what Jeff Bezos has done is something close to a miracle and the problem is if I think something is a miracle I tend not to bet on it. It would be far better if I had some insights into certain businesses.

In fact, Bill Gates told me early on that I should look at Google, but the trouble is I saw Google was skipping past Yahoo and I wondered if someone could skip past Google. I saw at GEICO we were paying Google a lot of money that cost them nothing incrementally and we've seen that and I've made a mistake.

I didn't go into Apple because it was a tech stock, I went in because I made certain conclusions about the intelligence of capital deployment, and more importantly about the value of that ecosystem and how permanent that ecosystem could be and what the threats to it were. I don't think that required me to take apart an iPhone and figure out what all the components were. It was much more the nature of consumer behaviour and some things strike me as having a lot more permanence than others.

The answer is we'll miss a lot of things that I don't feel I understand well enough and there is no penalty in investing if you don't swing at a ball that is in the strike zone. As long as you swing at something at some point and find the pitches that you like. That is the way we'll continue to do it. We'll try to stay within our circle of competence and Charlie and I generally agree on where that circle ends and what kinds of situations we might have some kind of edge in our reasoning or experience or where we might evaluate something different from other people. The answer is we are going to miss a lot of things. Charlie?

Munger: Yeah, we have a wonderful system. If one of us is stupid in some areas, so is the other.

[Laughter]

We were never going to be high tech wizards. How many people of our age quickly master Google?

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