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1st May 2021

2021 Berkshire Hathaway Annual Shareholders Meeting

"There's a lot more to picking stocks than figuring out what's going to be a wonderful industry in the future."

- Warren E. Buffett, 1st May 2021

Due to travel restrictions, we were unable to make our annual pilgrimage to Omaha, Nebraska, to attend Berkshire Hathaway's 2021 Annual Meeting. This year, the meeting was held in a virtual format in Los Angeles, and featured Chairman Warren Buffett (aged 90), Vice Chairman Charlie Munger (aged 97), Vice Chairman of Berkshire's Non-Insurance Operations Greg Abel (aged 58), and Vice Chairman of Berkshire's Insurance Operations Ajit Jain (aged 69), on stage to answer questions. The meeting was livestreamed to a global audience, which included several members of our Investment Team.

The meeting lasted almost six hours and covered a range of topics, from Berkshire's partial sale of Apple, to inflation, modern monetary theory, and cryptocurrencies.

Questions were submitted by the public and asked by CNBC's Becky Quick.

We believe the following notes present an accurate depiction of key takeaways from the meeting, but 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 (virtually) attending the meeting and putting them together!

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Introduction by Warren E. Buffett

Charlie Munger and I met 62 years ago. He was practicing law in Los Angeles. He was building a house at that time, a few miles from here, and 62 years later, he's still living in the same house. Now that was interesting because I was buying a house just a few months before 62 years ago, and I'm still living in the same house. So, you've got a couple of fairly peculiar guys, just to start with, in terms of their love affair with their homes. And Charlie and I hit it off immediately. And I would say he's probably the Vice Chairman in charge of culture, among other things. But if I ever want to get questions about where true north is, I talk to Charlie, and he has been an enormous help. He's done it with a lot fewer hours and a lot less talking than I have, but he's contributed in an incredible way to Berkshire.

On my right, I have the Vice Chairman in charge of everything except insurance and investments, Greg Abel. Greg was born and raised in Edmonton, Alberta. He's Canadian, plays hockey, his eight-year-old plays hockey. And he came to the United States sometime after he graduated from college in Canada. He is in charge of a business that has well over $150 billion in sales and employs more than 250,000, probably 275,000, people. And he does a much better job at doing that than I was doing previously.

And on my far left, we have Ajit Jain. Ajit was born and raised in India and graduated from college there. I met Ajit on a Saturday in 1986. Berkshire had been in the insurance business for quite a while. Ajit came to the office on Saturday. I said, "How much do you know about insurance?" and he said, "Nothing." and I said, "Well, nobody's perfect. Let's talk about it some," and by the end of the morning, I knew I had somebody that was going to build a great insurance business. Starting from that point, this improbable little company in Omaha became the largest property casualty company in the world.

So, here we have Charlie from LA, we've got Greg from Canada, we've got Ajit from India and the one thing in common that these three fellows have, aside from working for Berkshire and doing a sensational job, is that at one time or another they lived within a mile of me in Omaha, Nebraska. So, we started in very different places and came together and now we go our separate ways, but it has all worked very well.

On March 31st, I ran off a list of the 20 largest companies in the world by stock market value and those names, a good many of which will be familiar to you, were led by Apple, that's slightly over $2 trillion. And it went down to the number 20th, which was worth $330-odd billion. The top six companies, five of them are American. So, when you hear people say that America is not working very well or something of the sort, in the whole world of the six top companies, five of them are in the United States.

In 1790, we had one half of 1% of the world's population. A little less, we had 4 million people, 3.9 million people, 600,000 of them were slaves. Ireland had more people. Russia had five times as many people. Ukraine had twice as many people. So here we were, but what did we have? We had a map for the future, an aspirational map that somehow now, after the constitution, 232 years later, leaves us with five of the top six companies in the world. It's not an accident and it's not because we were way smarter, way stronger, or anything of the sort. We had good soil, we had decent climate, but so did some of those other countries. The system has worked unbelievably well. Just imagine thinking of five of the top six companies in the world, ending up with a country that started with a half of 1% of a population just a few hundred years ago.

What I would like you to do is look at that list for a minute or two, and then make an estimate, make your own guess, how many of those companies are going to be on the list 30 years from now.

This was March 31st. But what would you guess? Would you put on five? Eight? Well, whatever it would be, I would now invite you to look at slide two, which goes back a little more than 30 years. And look at the top 20 from 1989. And if you look at the top 20 from 1989, there's two things that we should grab your interest. None of the 20 from 30 years ago are on the present list. None. Zero. There were six US companies on the list and their names are familiar to you. We have General Electric, Exxon, we have IBM Corp and they're still around. Merck is down there. None made it to the list 30 years later. I would guess that very few of you, when I asked you to play the quiz a few minutes ago, would've put down zero.

Japan had this wonderful bull market for a very long time. So, we had a number of Japanese companies on the list. Today, there are none. The United States had six, now we have 13. But they aren't the same six. I would invite you to think about one other thing as you look at this list. 1989 was not the dark ages. I mean, we weren't just discovering capitalism or anything else. People thought they knew a lot about the stock market, and the efficient market theory was in, it was not a backward time. The top company at that time had a market value of $104 billion. So, the largest company in the world, in just a shade over 30 years has gone from a $100 billion to $2 trillion. And at the bottom, the number 20 has gone from $34 billion to something a little over 10 times that. Well, that tells you something about what's happened with equality, which is a hot subject in this country. And it tells you a little bit about inflation, but this was not a highly inflationary period as a whole. But it tells you that capitalism has worked incredibly well, especially for the capitalist.

It's a pretty astounding number. You'd think it could be repeated now, that 30 years from now, you could take $2 trillion for Apple and multiply any company and come up with something 30 times larger. It seems impossible, and maybe it is impossible, but we were just as sure of ourselves as investors and Wall Street was in 1989 as we are today. But the world can change in very, very dramatic ways.

I'll just give you one other example you might ponder. This is, before you start getting too sure of yourself. One thing it shows incidentally is that it's a great argument for index funds, in that the main thing to do is to be aboard the ship. You couldn't help but do well if you just had a diversified group of equities to hold over a 30-year period.

Secondly, people get enormously attracted to various industries. I mean, they think if a company says it's in the XYZ industry and that's a popular one, you can sell IPOs. You can sell SPACs. People disregard sales numbers, or earnings numbers. It's the place to be.

So, where was the place to be in 1903? Henry Ford was starting the Ford Motor Company. It had failed a couple of times before, but he was about to change the world. It transformed the country. And Henry Ford brought in the $5 daily wage. And that was a huge thing. Assembly lines, everything autos came along.

Let's just assume that you had seen a quick glance back in 1903 of all the interstate highways, 290 million vehicles on the road in the United States. Everything about it and say, "Well, this is pretty easy. It's going to be cars. It's going to be autos."

I decided to look at the history and I thought I'd put up the list of auto companies from over the years. There were at least 2,000 companies that entered the auto business because it clearly had this incredible future. In 2009, there were three left, two of which went bankrupt. So, there is a lot more to picking stocks than figuring out what's going to be a wonderful industry in the future.

The Maytag company put out a car. Allstate put out a car. DuPont put out a car. Everybody started car companies, just like everybody's starting something now that can be where you can get money from people. But there were very, very, very few people that pick the winner, and got the opportunity for that. I just want to tell you, it's not as easy as it sounds.

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Q&A Session

Q: You're well known for saying to be fearful when others are greedy and be greedy when others are fearful. Berkshire was fearful when others were most fearful in the early months of COVID. Dumping airline stocks at or near the low, not taking advantage of the fear gripping the market to buy shares of public companies at exceptional discounts and being hesitant to buy back significant amounts of Berkshire stock at very attractive prices. I'd appreciate hearing your thoughts surrounding this time and how Berkshire approached its decision-making?

Buffett: I'm the Chief Risk Officer of Berkshire. That's my job. We hope we do well, but we want to be sure we don't do terribly. But we didn't sell a substantial amount. I mean, we're a company with probably $700 billion worth of businesses. Some we own in their entirety and some we own a piece of, and I don't know whether we were sellers of maybe 1% of the value of all the businesses we had at that period.

The airlines were the most prominent beneficiaries of what took place. Immediately, they got $25 billion, most of which went to the big four airlines and some of which went in as grants, not loans. And I think that was fine public policy. They went into the government, they needed the government's help or they would go bankrupt. Congress decided they deserved the help, which I do not quarrel with at all. But imagine if Berkshire was the 10% holder, which they had been. They might've had a very, very, very different result if they'd had a very, very, very rich shareholder that owned eight or nine percent. You might not have gotten the same result. In fact, I would think you probably wouldn't.

We didn't like having as much money as we had in banks at that time. I cut back some of the bank investment, but our net sales were about 1.5%. Looking back now, it would have been better to be buying. I do not consider it a great moment in Berkshire's history, but also, we've got more net worth than any company in the United States. We've got $600 or $700 billion of generally good businesses.

I think the airline business has done better because we've sold, and I wish them well, but I still wouldn't want to buy the airline business. People really want to travel for personal reasons, but business travel is another thing. We've got a big exposure to business travel, of course, through the fact that we own 19% of American Express and we own Precision Castparts, which services the air business very well. We've still got a big investment in air travel, a big commitment to it. We wish the big four the best, and I think their managements have done a very good job during this period.

Q: You spent years accumulating cash, insisting you had your elephant gun ready. The listed equity sell-off came with promises from the US government that they would do whatever necessary, yet you sat on your hands. Please help me understand what I missed?

Munger: Well, it's crazy to think anybody's going to be smart enough to husband money and then just come out on the bottom tick in some crazy crisis and spend it all. Always, there's some person that does that by accident, but that's too tough a standard. Anybody who expects that of Berkshire Hathaway is out of his mind.

Buffett: Charlie and I never were very good at dancing, but we really can't do that dance.

Munger: No, no, we can't. And by the way, almost nobody else can either.

Buffett: Not with tens of billions. Or hundreds of billions. But it's worked out well. If you go back to the balance sheet, it shows the shares outstanding at the bottom. We spent about $25 billion in the first quarter, and more money since and it's the best thing. We can't buy companies as cheap as we can buy our own and we can't buy stocks as cheap as we can buy our own. We've been able to do that with a fair amount of money, but looking back, I feel definitely we could have done better things. We would've sold airlines and cut back on banks regardless. Whether we should have bought something else at the same time is another question.

Q: After a 15-year-period of market underperformance, you're cautious about predicting Berkshire being able to outperform the market in the future. Given this, what do you see the arguments for long-time shareholders to continue holding their Berkshire stock, versus diversifying the risk across an index?

Munger: I personally prefer holding Berkshire to holding the market. I'm quite comfortable holding Berkshire. I think our businesses are better than the average in the market. On a composite basis, I'd bet on Berkshire over the market. And that's assuming we're all dead.

Buffett: I recommend the S&P 500 index fund and have for a long, long time, to people. I've never recommended Berkshire to anybody, because I don't want people to buy it because they think I'm tipping them into something. I've made it public that on my death, there's a fund for my then-widow, and 90% will go into an S&P 500 index fund, and 10% in treasury bills. On the other hand, I'm very happy having my future contributions to a group of charities, that'll be spread over 12 years or so after my death, stay in Berkshire.

We happen to have a large group of people that didn't pick stocks, but they picked Charlie and me to manage money for them, 50 or 60 years ago. We have a very unusual group of shareholders, I think, who look at Berkshire as a lifetime savings vehicle and one they don't have to think about, and one that, if they don't look at it again for 10 or 20 years, that we'll have taken care of the money reasonably well. I like Berkshire, but I think that a person who doesn't know anything about stocks at all and doesn't have any special feelings about Berkshire, I think they ought to buy the S&P 500 index.

Q: Can we gather from your purchase of Chevron stock that you do not believe the howling from society, regulators and politicians will impair the prospects of hydrocarbons and Chevron, for that matter, over the next 10 years? Can investors still assume an oil and gas business that finds and produces oil at low cost per barrel can generate a sufficient return on capital for a long time to come?

Buffett: I would say that people that are on the extremes of both sides are a little nuts. I would hate to have all hydrocarbons banned in three years, you wouldn't want a world like that, it wouldn't work. On the other hand, what's happening will be adapted to, over time, just as we've adapted to all kinds of things.

It's a very tough time to decide what companies benefit society more than others. I think Chevron's benefited society in all kinds of ways, and I think it continues to do so. I think we're going to need a lot of hydrocarbons for a long time, and we'll be very glad we've got them, but I do think that the world's moving away from them, too, and that could change.

I don't like making moral judgments on stocks, in terms of actually running the businesses, but there's something about every business that you know that you wouldn't like. Meat packers, have you ever gone through a meat packing plant? If you expect perfection in companies, you're not going to find it.

Chevron's not an evil company in the least and I have no compunction in the least about owning Chevron. If we owned the entire business, I would not feel uncomfortable about being in that business. Charlie?

Munger: Well, I agree. You can imagine two things. A young man marries into your family, he's an English professor at Swarthmore, or he works for Chevron. Which would you pick? Sight unseen? I want to admit, I'd take the guy from Chevron.

Buffett: I hope your daughters agree with you.

Q: Why in the recent past did Berkshire sell some Apple shares? If the company is considered Berkshire's fourth jewel, why didn't Berkshire buy more Apple in 2020? This seems to be counterintuitive.

Buffett: Well, we have 5.3% or something like that now, it's gone up in the first quarter because we bought in our own shares, which helps our own shareholders expand their interest in Apple without laying out a penny, and then Apple repurchased its shares and just announced another repurchase program. We look at Apple as a business that we have 5.3% of. Now it's a marketable security, so it shows up as greater than any other marketable security we have. But, of course, if you look at our railroad, as we mentioned, Union Pacific is selling for about $150 billion in the market. We own one that's larger than the Union Pacific and making a little less money, but not much less.

Apple, it's got a fantastic manager. Tim Cook was underappreciated for a while. He's one of the best managers in the world, and I've seen a lot of managers. He's got a product that people absolutely love. There's an installed base of people and they get satisfaction rates of 99%. I get the figures as to what's being sold, and if people come in and they want an Android phone, they want an Android phone. If they want an Apple phone, you can't sell them the other way. It's an incredible product. It's a huge bargain to people. I mean, the part it plays in their lives is huge. I use it as a phone, but I'm probably the only guy in the country. Maybe some descendant of Alexander Graham Bell is doing the same thing, but it is indispensable to people.

A car costs $35,000, and I'm sure with some people, if we asked them whether they had to give up their Apple product or give up their car, and really make the choice for the next five years, who knows what they do? We got a chance to buy it, and I sold some stock last year, although our shareholders still had their percentage interest go up, because we repurchased shares. But that was probably a mistake. In fact, Charlie in his usual, low-key way, let me know that… You thought it was a mistake too, didn't you Charlie?

Munger: Yes.

Buffett: I could only do so many things that I can get away with Charlie, and I kind of used them up between Costco and Apple. He was very likely right, in both circumstances. We see a lot of managers of a lot of businesses, and you're looking at two great ones on both ends here. He's [Tim Cook] handled that business so well, he couldn't do what Steve Jobs could do in terms of creation, but Steve Jobs couldn't really do what Tim Cook has done in many respects.

Munger: I also think it's clear that, that list you showed of the leading American companies, it's been very important for America that we've done so well in this new tech field. I, personally, would not like to see our present giants brought down to some low-level by anti-competitive reasonings. I don't think they're doing a lot of harm anti-competitively. I think they're credit to the Americans, credit to our civilisation.

Buffett: And they're huge.

Munger: And they're huge, and that's good for us.

Q: What's your mindset, when you see so many of these big tech growth stocks gaining +50%, +100%, +200%, etc., in a matter of a year or less? How do you assess if these high flyers are worthy of your investment, given crazy high valuations that muddy the waters?

Buffett: Well, we don't think they're crazy. I feel that I understand Apple and its future with consumers around the world better than I understand some of the others.

Interest rates are to the value of assets what gravity is to matter. If I could reduce gravity by about 80%, I'd be in the Tokyo Olympics jumping. You've had this incredible change in the valuation of everything that produces money because the risk-free rate produces nothing.

If present rates were destined to be appropriate, if the 10-year should really be at the price it is, those companies that the fellow mentioned in this question, they're a bargain. They have the ability to deliver cash at a rate that, if you discounted back and you're discounting at present interest rates, stocks are very, very cheap. Now, the question is what interest rates do over time. But there's a view of what interest rates will be, based on the yield curve out to 30 years and so on.

In economics, there's one thing always to remember, you can never do one thing, you always have to say, "And then what?" We are sending out huge sums. I mean, the President said on Wednesday that 85% of people are going to get a $1,400 check. A couple of years ago, we were saying 40% of people never could come up with $400 of cash. We've got 85% of people getting those sums, and so far, we've had no unpleasant consequences from it. I mean, people feel better. The people who got the money feel better and the people who are lending money don't feel very good, but it causes stocks to go up. It causes business to flourish. It causes an electorate to be happy and we'll see if it causes anything else.

And if it doesn't cause anything else, you can count on it continuing in a very big way. But there are consequences to everything in economics. That is why the Googles and the Apples are incredible companies, in terms of what they earn on capital. They don't require a lot of capital, and they gush out more money.

We'll see where it all leads, but Charlie and I consider it the most interesting movie by far we've ever seen in terms of economics, don't we Charlie?

Munger: Yes, and the professional economists, of course, have been very surprised by what's happened. It reminds me of what Churchill said about Clement Attlee. He said, "He was a very modest man, and had a great deal to be modest about," and that's exactly what's happened with the professional economists. They were so confident about everything, and it turns out the world is more complicated than they thought.

Q: What's your opinion about the economic theory, MMT, especially the United States because it's the reserve currency for the world?

Munger: I think the modern monetary theorists are more confident than they ought to be, too. I don't think any of us know what's going to happen with this stuff. I do think there's a good chance that this extreme conduct is more feasible than everybody thought. But if you keep just doing it without any limit, it will end in disaster.

Q: What impact does the rise of so many new SPACs have on Berkshire's ability to find and close new acquisitions?

Buffett: Well, it's a killer. These SPACs generally have to spend their money in two years. They have to buy a business in two years. If you put a gun to my head and said, you've got to buy a big business in two years, I'd buy one, but it wouldn't be much of one. If you're running money for somebody else and you're getting paid a fee and you get the upside, and you don't have the downside, you're going to buy something.

In the stock market, we've had a lot of people in the casino in the last year. You have millions and millions of people who've set up accounts where they day trade. I would say that you had the greatest increase in the number of gamblers, essentially. There's nothing wrong with gambling, and they've got better odds than they've got if they play the state lottery, but they have cash in their pocket. They've had action and they've actually had a lot of good results. If they just bought stocks, and held them, they'd do fine.

The gambling impulse is very strong in people worldwide and occasionally, it gets an enormous shove and conditions lead to this place where more people are entering the casino than are leaving every day and that creates its own reality for a while. But nobody tells you when the clock is going to strike midnight and it all turns to pumpkins and mice. When the competition is playing with other people's money, or if they're playing foolishly with their own money, they're going to beat us. That's a different game and they've got a lot of money, so we're not going to have much luck on acquisitions while this sort of period continues. But it's happened before. This is about as extreme as we've seen it. Isn't it, Charlie?

Munger: Yes, of course, I call it fee-driven buying. In other words, it's not buying because it's a good investment, they're buying it because the advisor gets a fee. To some extent, it's a moral failing too, because the easy money made by things like SPACs and total return derivatives and so on, and so on. You push that to excess and it causes horrible problems with civilisation and reflects no credit on the people who are doing it and no credit on the regulators and voters that allow it. I think we have a lot to be ashamed of with the current conditions.

Buffett: I don't regard it as shameful on a lot of the people that gamble. I mean, gambling is a very human instinct, and they've got money in their pocket and they know somebody else has made money who they don't think is any smarter than they are.

Munger: I don't mind the poor fish that gamble. I don't like the professionals that take the suckers.

Q: If you deem stock prices to be overvalued or in a bubble, do you think it's best to keep your money in cash while waiting for prices to come down to a fair price? Or would it be a better idea to invest this money in some way, while waiting until stock prices are fair again, and then sell the investment to buy the stocks?

Buffett: We've got probably 10% to 15% of our total assets in cash, just as a way of protecting the owners and the people that are our partners from ever having us getting into a pickle. You know, we really run Berkshire to make sure that we don't lose other people's money who stick with us for multiple years. We've got probably $70 or $80 billion, something like that, that we'd love to put the work. That's 10% of our assets, roughly and we probably won't get a chance to do it under these conditions, but conditions change very, very, very rapidly sometimes in markets.

Q: A prominent Senator recently categorised share buybacks as a form of market manipulation. You've often said that repurchasing shares at prices below intrinsic value benefits continuing shareholders. Could you and Charlie please elaborate on the higher order effect that share repurchases have on society?

Buffett: They're a way of distributing cash to the people that want the cash when other co-owners mostly want you to re-invest. If the four of us sitting at this table decided we'd buy a few Dairy Queen franchises, we formed a little company and we all put in a million dollars or something like that and we buy the Dairy Queen franchises and they're doing well. Three of the four of us want to keep buying more Dairy Queen franchises and we're not done building and saving for the future. But the fourth one says, "Listen, I've gotten rich enough. I'd rather take some money out." Well, there's only two ways to do it. We can pay dividends, all four of us, three of us whom don't want it, or we can repurchase the shares at a fair price. I find it almost impossible to believe some of the arguments that are made that it's terrible to repurchase shares from a partner if they want to get out of something and you're able to do it at a price that's advantageous to the people that are staying.

Munger: If you're repurchasing stock because it's a fair thing to do in the interest of your existing shareholders, it's a highly moral act and the people who were criticising it are bonkers.

Q: What are your thoughts on the new administration's capital gains, corporate tax, and stepped-up basis tax increases?

Munger: I think it's probably a mistake to be basically anti-capitalist. I think capitalism is what raises GDP for everybody. I also have a feeling that Benjamin Franklin was right when he said that it's hard for an empty sack to stand upright, and to some extent, the prosperity of leading American institutions helps them behave better. Now, there are exceptions in promotional finance and so on, but by and large, Franklin was right. So, I'm a little wary of just constantly getting mad at people because they have a little more money.

Q: In this year's Chairman letter, you discuss that you made a mistake in 2016 when calculating Precision Castparts' average amount of future earnings, which resulted in Berkshire overpaying to acquire it. It appears that Precision's earnings declined substantially in 2020 because of the pandemic and the effect on airlines and the travel industry. What calculations could you have made in 2016 that might've altered your decision to acquire it? Secondly, are the problems Precision is currently facing larger than the pandemic?

Buffett: Anytime we look at buying a business, we're evaluating the competitive strengths of the business, the price we have to pay, the management they have, everything. We didn't make a mistake on the management, but we did in terms of the earning power on average. It's a terrific company. I'm happy with the management, but GE doesn't need as many engines as we thought they'd need. They are in the aviation business, but we did not think those businesses would necessarily be in something close to a depression. On the other hand, businesses that we bought end up sometimes doing better than we think.

The number one risk factor is that a business gets the wrong management. You get a guy or a woman in charge that is highly personable, liked by the directors, does not know what they're doing, but knows how to put on an appearance that they do. That's the biggest single danger that a business has and that that person stays and runs it for 10 or 15 years. I've looked at a lot of businesses and that's what's caused the number one problem.

Q: Now that the crypto market overall is valued at $2 trillion, do you still consider cryptos as worthless artificial gold?

Buffett: I'm going to dodge that question because we've probably got hundreds of thousands of people watching this that own Bitcoin and we've got two people that are short. We've got a choice of making 400,000 people mad at us and making two people happy. That's just a dumb equation.

Munger: Well, those who know me well are just waving the red flag at the bull. Of course, I hate the Bitcoin success and I don't welcome a currency that's so useful for kidnappers and extortioners and so forth, nor do I like just shuffling out billions and billions of dollars to somebody who just invented a new financial product out of thin air. I think I should say, modestly, that I think the whole damn development is disgusting and contrary to the interests of civilisation and I'll leave the criticism to others.

Q: In your shareholder letter, you mentioned that the best investment results come from the companies that require minimum assets to conduct high-margin businesses. In today's world many of these companies tend to be software-driven businesses. While Berkshire has avoided investing in high-growth technology companies in the past, this appears to be slowly changing with your investments in Apple and Snowflake. As shareholders, should we expect that high-margin businesses will begin to constitute a larger proportion of Berkshire's investment portfolio over time, particularly as Todd and Ted take on larger roles in the investment decision process?

Buffett: Well, we've always known that the green business is the one that takes very little capital and grows a lot. Apple, Google, Microsoft and Facebook are terrific examples of that. I mean, Apple has $37 billion in property, plant, equipment. Berkshire has $170 billion or something like that and they're going to make a lot more money than we do. They're in better businesses. It's a much better business than we have. Microsoft's business is a way better business than what we have. Google's business is a way better business. We've known that a long time. We found that out with See's Candy in 1972. See's Candy just doesn't require that much capital. It has, obviously, a couple of manufacturing plants, they call them kitchens, but it doesn't have big inventories, it doesn't have a lot of receivables. Those are the best kinds of businesses, but they command the best prices. There aren't that many of them and they don't always stay that way.

Q: What are your current thoughts on China and whether the Communist leaders will allow businesses with strong leadership to flourish in decades to come?

Munger: Well, I think that the Chinese government will allow businesses to flourish. It was one of the most remarkable things that ever happened in the history of the world when a bunch of committed Communists just looked at the prosperity of places like Singapore and said, "The hell with this. We're not going to stay here in poverty. We're going to copy what works." They changed Communism. They just accepted Adam Smith and added it to their Communism. Now we have Communism with Chinese characteristics, which is China with a free market with a bunch of millionaires and so forth. They made that shift, and they deserve a lot of credit. Warren and I are not quite as good at that, at changing our minds, in many cases.

That was a remarkable change, and of course, it's worked like gangbusters. They've had enormous growth in the average income. They've lifted 800 million people out of poverty, fast. There was never anything like it in the history of the world, so my hat is off to the Chinese. I think they will continue to allow people to make money. They've learned it works. I love what the guy said in the first place, "I don't care whether the cat is black and white, as long as it catches mice." That's my kind of talk.

Buffett: In that list of the 20 most valuable companies, three are Chinese. Now, if you're looking out 30 years, my guess is more will be Chinese, but I don't think it will top the United States, but who knows? It's amazing what has been accomplished.

Q: On March 19th, Larry Summers, the former Secretary of the Treasury under President Obama, was critical of President Joe Biden's $1.9 trillion American Rescue Stimulus Plan. In an interview with Bloomberg Television he said, "I am much more worried that we will have more inflation or that we will have a pretty dramatic fiscal monetary collision. This goes way beyond what is necessary." He also said, "This is the least responsible macro-economic policy we've had in the last 40 years." Your thoughts?

Buffett: The answer is we don't know, but Larry's view is an important view. It's just as good as the view on the other side.

We don't know what happens from the present policies. We do know, as Jay Powell said the other day, that the idea of one hundred percent of GDP being a terribly dangerous level in terms of debt does not make a whole lot of sense now. That used to be kind of accepted wisdom. We've learned a lot of things we thought before weren't true, but what we haven't learned yet is whether what we're doing now is true. The best thing to do is recognise you don't know and proceed in a way where you get a decent result, no matter what happens. That's what we try and do at Berkshire Hathaway. We do not think we can make money by making macro-economic predictions.

Q: Could you please explain why you decided to exit most of your bank stocks in 2020, except for Bank of America?

Buffett: I like banks, generally. I just didn't like the proportion we had in it, compared to the possible risk. We were over 10% of Bank of America. It's a real pain in the neck, more to the banks than to us, if we go over 10%. I like the Bank of America and I like Brian Moynihan very much. I like the banking business fine. We took that up, but we took the overall bank position down.

The banking business is way better than it was, in the United States, 10 or 15 years ago. The banking business around the world in various places might worry me, but our banks are in far, far better shape than 10 or 15 years ago. But when things froze for a short period of time, the biggest thing the banks had going for them is that the Federal Reserve was behind them. The Federal Reserve, they're not behind Berkshire. It's up to us to take care of ourselves.

Q: What do you think about Robinhood and other trading apps or FinTech companies enabling all ages and experience to participate in the stock market?

Buffett: Well, I'm looking forward to reading the S-1 (initial registration statement). It has become a very significant part of the casino group that has joined the stock market in the last year. I'm concerned about how they handle the source of income when they say that they don't charge the customer anything. It'll just be interesting to watch how they describe it. I think I read 12% or 13% of their casino participants were dealing in puts and calls. I looked up the number of 7-day calls and 14-day calls outstanding on Apple. I'm sure a lot of that is coming through Robinhood and they're gambling on the price of Apple over the next 7 days or 14 days. There's nothing illegal about it, there's nothing immoral. But I don't think you would build a society around people doing it.

Munger: Well, that is really waving the red flag at the bull. I think it's just God awful that something like that would draw investment from civilised men and decent citizens. It's deeply wrong. We don't want to make our money selling things that are bad for people.

Q: From raw material purchases by Berkshire subsidiaries, are you seeing signs of inflation beginning to increase?

Buffett: We're seeing very substantial inflation. It's very interesting. We're raising prices. People are raising prices to us and it's being accepted. We've got nine home builders in addition to our manufactured housing operation, which is the largest in the country. So, we really do a lot of housing. The costs are just up, up, up. Steel costs, just every day they're going up. The UAW (United Auto Workers; a labour union) writes a three-year contract, but if you're buying steel at General Motors or someplace, you're paying more every day. It's red hot, and we weren't expecting it.

It is not a price sensitive economy right now in the least. I don't know exactly how it shows up in different price indices, but there's more inflation going on than people would have anticipated just six months ago.

Abel: It really goes back to the raw materials. There's a scarcity of product right now of certain raw materials. It's impacting price and the ability to deliver the end product.

Q: What do you think of quants? Jim Simons' Medallion Fund has done +39% net of fees for three decades, which proves that it works. Will you consider hiring a Quant Lieutenant in Berkshire to work alongside with Ted or Todd?

Buffett: Well, I'll say no to the second part, and I'll let Charlie handle the first part.

Munger: Well, that's rather interesting. The quant fund did fabulously on the short-term trading. They found little algorithms that worked to give them predictive value. As long as they kept working, they just kept doing it. When they started using the same system for long-term stock predictions, the record was not nearly as good. And in the short-term stuff, they found that if they tried to do it too much, they destroyed their own advantage. So, there was a limit on the amount they could make.

Buffett: But we're not trying to make money trading stocks. We don't think we know how to do it. If we knew how to make a lot more money trading stocks, we'd probably be trading stocks too. But we don't know how to do it, and we really don't trust anybody else to do it for us. That simple.

Q: Mr. Buffett has espoused for decades the philosophy of buy and hold. Is it a misperception on my part, or has this philosophy changed? There seems to be a much greater turnover in the equity portfolio lately.

Buffett: I don't think there's that much turnover.

Munger: It's still too much.

Buffett: Yeah, I'd agree with that. And the truth is our businesses are equities, so we own $400 or $500 billion, in businesses. We don't turn them over at all. We don't resell businesses. We do relatively little, but as Charlie says we'd do better if I had done less.

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