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QUIPS & QUOTES FROM THE 2018 BERKSHIRE HATHAWAY ANNUAL MEETING

This weekend we traveled to Omaha, NE to attend the annual meeting for shareholders of Berkshire Hathaway. Warren Buffett (87) and longtime partner and vice chairman Charlie Munger (94) answered questions for nearly six hours, providing valuable insights and investing wisdom.

The purpose of this note is not to provide a comprehensive account of the day's many interesting questions and topics, but rather to share with friends of 1949 Value Advisors who may not have been able to make the trek to Omaha, a collection of what we considered to be among the more unique, witty and insightful nuggets. We hope that you enjoy this brief note, despite its poor paraphrasing, misquotes, and items provided without context, for which I apologize in advance. Please feel free to follow up with me to discuss anything further.

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- With Greg Abel and Ajit Jain now overseeing the operating companies, and Tedd Weschler and Todd Combs investing Berkshire's billions, does this mean that you are semi-retired?
 - Mr. Buffett: *I've been semi-retired for decades! The jobs that are now done by Jain and Greg, and in the case of investing, Tedd and Todd each manage \$12 or 13 billion, I still have the responsibility for the other \$300 billion. So nothing's really changed that much.*
 - Mr. Munger: *Well, I've watched Warren for a long time and he sits around reading most of the time and thinking. Every once in a while he talks on the phone to somebody. Part of the Berkshire secret is that if there's nothing to do, Warren is very good at doing nothing!*
 - Mr. Buffett: *I'm still looking forward to being a mattress tester [@ Nebraska Furniture Mart]*

- Regarding whether Berkshire will continue to get calls from sellers without Warren and Charlie
 - Mr. Buffett: *I don't think the reputation is dependent upon me or Charlie. There'll be a little testing period for whoever takes over, but we've got the money to do the deals. The reputation belongs to Berkshire now. If they care about where that business ends up, after for one reason or another, they don't want to keep it, or can't keep it in the family. 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.*
 - Mr. Buffett: *There was one fellow who came to me many years ago, and he had a wonderful business. And he had been worried because he had seen a friend pass away and the problems that arose later when the managers tried to take advantage of the widow, and it became a disaster. He decided he didn't want to sell his business to a competitor, who would be a logical buyer, because they would fire all his people. 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 would just sell it later on to somebody. And he wanted to keep running it himself. So he said, 'Warren, it isn't that you're such a great guy, it's that you're the only one left.' So Berkshire will continue to be the only one left, in some cases.*

- Regarding Mr. Buffett's direct involvement in the operating subsidiaries
 - Mr. Buffett: *Ajit and I talk frequently, and if there's some very big risk, we have a certain amount of fun with him deciding on the price in his head and I decide in my head and then we compare notes. I enjoy thinking through the pricing of that, and I particularly enjoy comparing it with Ajit. It's part of the fun of my job.*
 - Mr. Munger: *Well, the answer is Warren is still talking to Ajit, but that's because Ajit likes it that way. We are a very peculiar place where Warren's contact with the various people elsewhere in the organization largely depends upon what they want, not what Warren wants.*
- Regarding Mr. Buffett's personal views on guns vs. the role Berkshire could play in establishing policies
 - Mr. Buffett: *Well, let's explore that a little. Should it be just my view or should it be the view of the owners of the company? If a majority of [BRK] shareholders voted to [support the NRA] or a majority of the Board of Directors voted to do it, I would accept that. I don't believe in imposing my political opinions on the activities of our businesses. And I think it's very difficult to make that call on which companies are pure and which companies are not pure.*
 - Mr. Munger: *Well, obviously we draw a limit on all kinds of things which are beneath us even though they're legal. But we don't necessarily draw it perfectly because we've got some sort of supreme knowledge. We just do the best we can. And certainly we're not going to ban all guns surrounded by wild turkeys in Omaha.*
- Mr. Munger: *I want to talk to the younger shareholders in this group. Those of you, who after we are gone, sell your Berkshire stock and do something else [with the proceeds], whether helped by your many friends, I think you're going to do worse. So I would advise you to keep the faith. Some of that has already happened in many families.*
- Mr. Buffett: *Being a low cost producer is a terribly important moat. With GEICO, we are a low cost producer and that is not bad when you're selling an essential item.*
- Mr. Munger: *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!*
- Following a long and carefully worded academic question asking Charlie Munger to “work the arithmetic using a fictional data set to illustrate the mathematical principle of determining intrinsic value”
 - Mr. Munger: *Well, I can't give you a formulaic approach because I don't use one. I just mix all the factors in and if the gap between price and value is not attractive, I go on to something else. If you want a formula, you should go back to graduate school. A lot of formulas don't work.*
- Regarding Apple investment and their announced buyback intentions
 - Mr. Buffett: *From our standpoint, we would love to see Apple go down in price [so that we could buy more]. It's very simple math but it gets lost in all these discussions. Tim Cook can do simple math, and probably do very complicated math too. So, we very much approve of them repurchasing shares. Charlie?*
 - Mr. Munger: *I think the reason these companies are buying their stock is that they're smart enough to know that's better for them than anything else.*
 - Mr. Buffett: *And that does not mean that we approve of every buyback at all.*
 - Mr. Munger: *No, I think some people just buy it to keep the stock up. And that, of course, is insane and amoral. But apart from that matter, it's fine.*

- Asking a long and very astute question obviously crafted by her parents, 8 year old “Daphne from NYC” asked Mr. Buffett to explain why Berkshire’s more recent acquisitions have been in businesses requiring significant capital investment and offering a low regulated rate of return (like Burlington Northern), rather than in more capital efficient businesses such as See’s Candy, Coke, American Express and GEICO.
 - Mr. Buffett: *You’re killing me, Daphne!*
 - Mr. Munger: *We should be glad that she’s not 9 years old!*
 - Mr. Buffett: *The fact that we bought Burlington Northern means that 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. We bought most of them at very decent prices and they’ve been running very well since we bought them. But you definitely have a job in our capital allocation department!*
- Regarding cryptocurrencies
 - Mr. Buffett: *It essentially is not going to deliver anything other than supposed scarcity – I mean, what does it produce itself? The check is a wonderful idea - just imagine how the world would be without being able to write checks or wire transfers, but it doesn’t make the check intrinsically worth a lot of money...I think anytime you buy a non-productive asset, you are counting on somebody else buying it 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.*
 - Mr. Munger: *Well, I like cryptocurrencies a lot less than you do. And so to me, it’s just dementia. I think of people who go into trading cryptocurrencies, it’s disgusting. It’s like somebody else is trading turds and you decide you can’t be left out.*
 - Mr. Buffett: *To the extent that we’re being webcast around the world, I’m hoping some of this stuff doesn’t translate very well!*
- Regarding Buffett and Munger’s criticisms of business schools, is academia unimportant and one only needs Chapter 8 of The Intelligent Investor to be successful?
 - Mr. Buffett: *If I could hire somebody from the top 5 graduates of number one, two or three business schools, or someone who was bright but had Chapter 8 of the Intelligent Investor in their bones so that it just came naturally, I would take the person from Chapter 8. What we do is not a complicated business. 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, but it just doesn’t require advanced learning.*
 - Mr. Munger: *Well, when you found Ben Graham he was unconventional and he was very smart. And of course that appealed to you. And then when you found out at work that you could make a lot of money while sitting on your ass, of course you were an instant convert!*
 - Mr. Buffett: *Actually, it still appeals to me.*
- Regarding why US investors are underweight China, the second largest economy in the world
 - Mr. Munger: *I think that you are absolutely right – US investors are missing China. And they’re missing it because it’s a long way away. It looks different. They’re not used to it. It’s complicated. The headlines confuse them. In other words, it just looks too hard. But I think that you’re right – it’s where they should be looking.*

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