

MAY 8, 2019

QUIPS & QUOTES FROM THE 2019 BERKSHIRE HATHAWAY ANNUAL MEETING

Once again, we traveled to Omaha, NE to attend the annual meeting for shareholders of Berkshire Hathaway. Warren Buffett (88) and longtime partner and vice chairman Charlie Munger (95) 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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- **There were several questions on share buybacks in light of Berkshire's \$110 billion in cash.**
 - **Mr. Buffett:** *We've got the money to buy in \$100 billion in stock. And we will spend a lot of money. We've been involved in companies where the number of shares has been reduced 70 or 80 percent over time. And we like the idea of buying shares at a discount. If our stock gets cheap, relative to intrinsic value, we would not hesitate.*
 - **Mr. Munger:** *I think when it gets really obvious, we'll be very good at it!*
 - **Mr. Buffett:** *Yeah, we will be good at it. We don't have any trouble being decisive*
- **Outside of Berkshire Hathaway, what is the most interesting/fun personal investment you have ever made?**
 - **Mr. Buffett:** *One time I bought one share of stock in Atled Corp. (the word "delta" spelled backwards). Atled had 98 shares outstanding and I bought one. A hundred guys in St. Louis each chipped in \$50 or \$100 per share to form a duck club in Louisiana and they bought some land down there to shoot ducks. But apparently somebody fired a few shots into the ground and oil spurted out. Those Delta Duck Club shares – I bought even more stock in it 40 years ago for \$29,200 a share! It had that amount in cash and it was producing a lot, and they sold it to another oil company. That was the most interesting. Actually I didn't have any cash at the time and I went down and borrowed the money. I bought it for my wife and the loan officer said, "Would you like to borrow some money to buy a shotgun as well?" (laughter)*
- **Regarding Kraft Heinz troubles of late**
 - **Mr. Buffett:** *Kraft Heinz is still doing very well, operationally. But we paid too much. You can turn any investment into a bad deal by paying too much. What you can't do is turn any investment into a good deal by paying little, which is sort of how I started out in this world. The idea of buying cigar butts that are declining or poor businesses for a bargain price is not something that we try to do anymore. We try to buy good businesses at a decent price.*

- **Regarding private equity and inflating their returns**
 - **Mr. Munger:** *What I don't like about pension fund investors is that they like private equity because they don't have to mark it down as much as it should be in the middle of the panics. I think that's a silly reason to buy something – because you're given leniency in marking it down.*
 - **Mr. Buffett:** *Yeah, and when you commit the money, often they don't invest the money, but you pay a fee on the money that you've committed. They count it in terms of getting a fee on it. But they don't count it in terms of what the so-called internal rate of return is. It's not as good as it looks.*
 - **Mr. Munger:** *Warren, all they're doing is lying a little bit to make the money come in.*
 - **Mr. Buffett:** *Yeah, well, that sums it up!*

- **Regarding recent purchase of shares in Amazon – might we be seeing a shift in investment philosophy away from the value investing principles that current BRK mng't has practiced for 70 years?**
 - **Mr. Buffett:** *It's interesting that the term "value investing" came up. I can assure you that both managers – one of whom bought AMZN last quarter – are value investors. The idea that somehow value is connected to book value or low price/earnings ratios or anything – I mean, as Charlie has said,, "ALL investing is value investing." You're putting some money out now to get more later on. The same calculations go into it whether you're buying some bank at 70 percent of book value or you're buying Amazon at some very high multiple of reported earnings.*
 - *(cont'd) In the end, it all goes back to Aesop, who in 600 B.C. said, "a bird in the hand is worth two in the bush". And when we buy Amazon, we try to figure out whether there's three or four or five in the bush, how long will it take to get to the bush, who else is going to come and try to take the bush away... Despite a lot of equations that you learn in business school, the basic equation is that of Aesop. And your success in investing depends upon how well you were able to figure out how certain that bush is, how far away it is and what the worst case is – instead of two birds being there, only one being there, and the possibilities of four or five or ten or twenty being there..*
 - **Mr. Munger:** *I don't mind having not caught Amazon early. The guy is kind of a miracle worker. I give myself a pass on that. But I feel like a horse's ass for not identifying Google better. We screwed up. We had insights into that because we were using them at GEICO. We saw that we were paying \$10 a click, or whatever it was, for something that had a marginal cost to them of exactly zero.*

- **Regarding Bitcoin**
 - **Mr. Buffett:** *On my honeymoon in 1952, my bride and I stopped in Las Vegas. At the Flamingo, we saw all these well-dressed people doing something that every damn one of them knew was mathematically dumb. So I told Susie, "We are going to make a lot of money." I mean, imagine people putting money on some roulette number and knowing the percent (odds of losing). And they just do it. I have to say, Bitcoin has rejuvenated that feeling in me...*

- **Question: I'm 27 years old and considering starting my own investment fund. How did you know that you were ready to manage other people's money?**
 - **Mr. Buffett:** *That's a very interesting question. I enjoyed investing, but I would not have started [the partnership] if I thought there was any chance that I would lose the money. And what I was worried about was not how I would behave, but how they would behave, because I needed people who were in sync with me. I said [to my partners] "Here are the ground rules as to what I think I can do and how I want to be judged, and if you're in sync with me, I want to manage your money because I won't worry about the fact that you'll panic if the market goes down or somebody tells you to do something different. So we have to be on the same page. And if we aren't on the same page, I don't want to manage your money because you may be disappointed when I think that things are even better to be investing and so on. So I don't think you want to manage other people's money until you have a vehicle and can reach the kind of people that will be in sync with you. I think you ought to have your own ground rules as to*

what your own expectations are, when they should send you roses and when they should throw bricks at you. And we didn't have a single institution in the partnership, because institutions meant committees... It's important that you don't take people that have expectations of you that you can't meet. And that means you turn down a lot of people. It means that you probably start very small and get a track record.

- Mr. Munger: *It reminds me of a story they tell about Mozart. A young man came to him and said, "I want to talk to you about how to compose symphonies. And Mozart said, "How old are you?" And the man said, "I'm twenty-two." So Mozart said, "You're too young to do symphonies." And the guy says, "But you were writing symphonies when you were ten years old." Mozart said, "Yes, but I wasn't running around asking other people how to do it!" (laughter)*
- **My question is how to best emulate your success in building your circle of competence. Would you still build a very broad, generalist framework? Or would you build a much deeper but narrower focus?**
 - Mr. Buffett: *I would just do a whole lot of reading. I'd try to learn as much as I could about as many businesses, and I would try to figure out which ones I really had some important knowledge and understanding that was probably different than, most of my competitors. And I would also try and figure out which ones I didn't understand, and I would focus on having as big a circle as I could have, and also focus on being as realistic as I could about where the perimeters of my circle of competence are.*
 - Mr. Munger: *Well, I think the best strategy, for the great mass of humanity, is to specialize. Nobody wants to go to a doctor that is half-proctologist and half-dentist, you know? (Laughter)*
 - Mr. Buffett: *But if you know even one thing very well, it'll give you an edge at some point. You know, it's what Tom Watson Sr. said at IBM - "I'm no genius, but I'm smart in spots and I stay around those spots." And that's basically what Charlie and I try and do.*
- **Regarding evaluating risk:**
 - Mr. Buffett: *We don't have any formula that evaluates risk, but we certainly make our own calculation of risk versus reward in every transaction we do. And that's true whether it's marketable securities, private investments or an investment in a business. And sometimes we're wrong. You can't make a lot of decisions in this business without being wrong. But we don't think the results would be changed favorably by having lots of committees and lots of spreadsheets. If I had a group under me, they would try and figure out what I wanted the answer to be, and they would tell me what I wanted to hear. And I've watched that approach at 20 public companies. The main thing is, are you reasonably sure that you know what you're doing? And if it gets past that hurdle, then we go on to figure out the math of gain versus loss. And we're willing to take what sounds like large losses if we think that the rewards are more likely and proportional. Charlie?*
 - Mr. Munger: *I've got nothing to add.*
 - Mr. Buffett: *It's very disappointing — we have no formulas around Berkshire. We don't sit down and write a bunch. You know, have people work till midnight calculating things and putting spreadsheets together. And if the hurdle rate is 15 percent or something, having them all come out at 15.1 or 15.2, because that's what's going to happen. I mean, you're going to get the numbers you want to hear and to an extreme degree. 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.*

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