Stephen Cloonan travelled to Omaha, Nebraska to join 40,000 others who wanted to listen to the wisdom of Warren Buffett, the world's most successful investor.

The Berkshire Hathaway Shareholders' meeting (dubbed "Woodstock for Capitalists by Buffett) is a unique event. The highlight is a 5 hour question and answer session hosted by Buffett (79) and Charlie Munger (86) the Chairman/CEO and Vice-Chairman respectively of the Omaha based conglomerate.

However the whole of Omaha, a small US city of about 800,000 people, is in party mode for the week-end and there are a huge number of other meetings, seminars and social events organised either by Berkshire's local subsidiaries or independently by other groups of shareholders.

On Friday evening Michael Butler and I joined a group of long-term investors for dinner. Most were very positive. The A shares were up from $92,000 last year to $115,000 this year. Many of them had bought their shares below $1,000 and some below $100. Tales were told of previous Berkshire annual meetings and eve of event dinners. Buffett's daughter had attended some of the early dinners and had once asked whether she could bring along "her dad". This was permitted! Frank Fitzpatrick (a lawyer from Lake Tahoe) told of being at a very early Berkshire annual meeting which took place in a canteen and was attended by only13 people. Many talked of the impact that their Berkshire investment and Buffett and Munger's advice had had on their lives. These were indeed the Buffett faithful!

On the Saturday morning we joined the "line" outside the Qwest Centre at about 6.15a.m. There were about 5,000 in front of us. The doors opened at 7.00 and we were pleased to capture seats in the 17,000 seating main arena. At 8.30 the hour-long "movie," produced by Buffett's daughter Susie, was a very entertaining and often humorous collage of cartoons featuring Buffett, Munger and Gates, interviews with them and with others and advertisements for products made by Berkshire subsidiaries.

After that, Buffett announced the first quarter results which showed reported profits of $3.6b and the operating profits (on which he places more emphasis) up from $1.7b to $2.2b. Then it was time for the much anticipated question and answer session. Half of the 60 or so questions came from the floor and the other half were asked by three journalists from CNBC, Fortune and the Wall Street Journal who had picked them from about 2000 emailed by shareholders. I've picked out a few of those that got the most attention.

The first question was about **Goldman Sachs** who are being sued by the SEC for fraud relating to the assembly and marketing of a mortgage-backed security. Their share price plummeted this week. Buffett spent over 30 minutes going into the detail of the transaction and concluded, very firmly, that Goldman hadn't done anything illegal. He admitted that the allegation had damaged them but added that he was very happy with his Goldman investment. He said that, paradoxically, the investigation might bring Berkshire a benefit as Goldman might delay further redeeming the $5b of bonds issued to Berkshire at the height of the financial crisis. The interest on this is $500m annually, or, as Buffett also put it, $15 per second. "Tick, tock" he said "I like to think of the money flowing in as I sleep".

Munger was a little more circumspect about Goldman. He said that the vote to prosecute had been 3-2 where these decisions are usually unanimous. He said that he thought that he would probably have voted against. He added that many investment bankers did things that while legal were “skuzzy”.

In response to a question on **inflation** Buffett said that the quantitative easing in the US and abroad would most likely result in a rise and perhaps a very significant rise in inflation. He pointed out that inflation tended to gather its own momentum once it got going. It was hard for elected representatives to wean us off our fiscal medicine. A trend is not necessarily a destiny but a fuse had been lit and somebody would need to blow it out.

In response to a question on the very **best businesses in which to invest** Buffett said he liked those which required very little capital to run. He mentioned Coca Cola (excluding the bottling companies) and Apple Computers as examples. He said that consumer product companies were generally good in this regard but could be expensive to buy into. Even better were businesses where customers paid up front for a product or service like insurance and magazine subscriptions. He liked it even more when these companies had the potential to grow and to employ more capital at good returns. He mentioned, though, See’s Candy (a Berkshire owned business) which had only $40m capital employed and made more money than that each year. It was a great business even though, he said, it didn’t have great growth prospects and he was happy to invest their profits elsewhere.

Buffett mentioned Berkshire’s $60b **insurance “float”** (or monies paid in advance by customers but not yet paid out in claims). He said that Berkshire was probably the world’s premier insurance company. He frequently expected that float to fall off. At $20b he had thought it was reaching a peak and while it continued to surprise him it couldn’t grow significantly now without a major acquisition. (As an aside I’m often asked about the similarities between Berkshire and the **Quinn Group**. There are some but Buffett has been much more conservative in investing the insurance float and also in his requirement that Berkshire keep $10-20b of unallocated funds available to meet an emergency.)

A shareholder going into the investment business confessed that he had been too **scared to invest** when Buffett did so during and after the height of the financial crisis. He still felt that the financial system wasn’t “out of the woods” and yet he now realises that he has missed a significant rally. Buffett said that if you were “fearful when others were fearful” it was difficult to be successful in the investment business. One would instead become the “brokers’ friend.” He said he should remember that share prices were an asset to an investor not an indication of value. Buffett and Munger liked it when something they bought went down and often bought more. One shouldn’t believe anybody who starts a sentence with “The market is saying”, he added.

Buffett was asked whether he was still being offered **acquisition deals**. He said “Yes, the phone is still ringing.” He has made his acquisition criteria clear (minimum annual profits of $75m for example) and this helps to screen companies. He is as interested as ever in doing a deal. He is often approached by people who wouldn't sell to anybody else. He only needed to get a couple of such calls a year.

In response to a shareholder who asked Buffett **what question he would ask** if the tables were reversed Buffett said a good question was whether he could continue to invest the capital that was being generated and retained in the company. He said that in time, perhaps in 10 or 15 years, the numbers could get too big and they would need to return money to shareholders. In response to the same question Munger said that the investment in (Korean car and battery manufacturer) BYD was a technology type investment and shareholders must think that strange as he and Buffett had "bragged about avoiding that type of investment." He pointed out that BYD had already achieved the "almost impossible" and couldn't be considered a start-up. He liked to think that the BYD investment showed that two old men were still capable of learning.

Buffett was asked about how one went about **changing** the **culture** in an organisation. His response was that this was very difficult as the old culture would reject it. It would be easier to start with a new organisation. In Berkshire he didn't have to change an existing culture and all the new businesses that joined subsequently had bought into the culture.

A winemaker from the Napa Valley asked whether he would intervene in a subsidiary if he heard of **unethical behaviour**. He said that he actively sought letters and calls on this subject to be sent to the group audit committee and to himself. He also wrote to each CEO every 18 months or so asking them who should be appointed to their post if anything happened to them. He reminded them of the importance of the company's reputation and invited them to call him if they thought they were "close to the line." He didn't often get such calls. He did expect that with 260,000 employees things were bound to go wrong from time to time.

Munger added that shareholders were also part of the company's culture. He said that one should only celebrate wealth if it had been "fairly won and was being wisely used." It struck me that Ireland might be a better place if everybody had such thoughts in mind during the Celtic Tiger period.

A shareholder from New Dehli asked what were the **biggest threats to Berkshire**. Buffett said that Berkshire would suffer big losses from time to time but that they had the balance sheet set up so that it was bullet proof. They had lost $3b on Katrina and $2b on 9/11. They would be comfortable taking on a group of risks up to $5b but, if they were to lose twice that in a single year, would probably still have more cash in the bank at the end of it that at the start given the strength of its cash flow. The fact that Berkshire paid little attention to quarterly results meant that they could accept risks that others shied away from, adding that this was a permanent and sustainable competitive advantage.

Asked by another shareholder about the **return on capital** that regulators would allow **BNSF** (a railroad acquired recently by Buffett) to make on the future capital he would invest, Buffett said that this figure varied from state to state but something like a 10.5% return on invested capital seemed to be an average and he thought this was pretty fair. Regulators wanted to see railroads investing. Munger added that most of the railway infrastructure (especially tracks, tunnels and bridges) had been totally replaced in the last 30/40 years. There had been wise management and wise regulation in that period.

A shareholder asked **how** Buffett and Munger **managed to be so different** to every body else. How did they get away with not issuing earnings guidelines, not changing their managers frequently, discouraging retirement, not using stock options as incentives, not employing very many MBA's, not living in New York and not eating sushi! Munger replied that there wasn't really a central philosophy of life as such – rather that they did what suited them and their talents. If something worked they just kept doing it.

At the end of the Q&A session there was a formal AGM which took just about 5 minutes. Then the pair departed to their next function. My friends and I, who were 25/35 years their junior, were exhausted and marvelled at their energy.

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