# 2012 Berkshire Hathaway Shareholders Meeting

## Omaha, Nebraska, May 5th 2012.

STEPHEN CLOONAN

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This was my seventh trip to Omaha to attend Warren Buffett's Berkshire Hathaway Shareholders Meeting. This year I was delighted that my son Peter (22) was able to accompany me on his first visit to what is nicknamed "Woodstock for Capitalists". The local newspaper (now owned by Berkshire) reported that 35,000 people attended.

### *"He put his initial purchase of 200 "A" shares at $40 each down to "dumb luck""*

On the Friday evening we joined a number of long-term shareholders for dinner. Some had been coming to the meeting for 30 years and there was a feeling that with Buffett now 81 and Vice Chairman Charlie Munger 88 there mightn't be a lot more meetings to look forward to. One reminisced about attending the meeting when there were only 13 people there. He put his initial purchase of 200 "A" shares at $40 each down to "dumb luck" rather than an appreciation of Buffett's unique abilities. (Today's price is $123,000 per share).

The Group's main concern was that the considerable progress made by Berkshire in the last few years had not been reflected in its share price. This concern was echoed by many shareholders during the Q&A session the next day.

On the Saturday morning we joined the "line" outside the CenturyLink centre at about 6.15. The doors opened at 7 and there was a brisk walk to secure seats in the 18,000 seat main arena. At 8.30 we had the "movie" produced by Buffett's daughter Susie. The highlight was an amusing piece of video which showed Buffett struggling to answer calls at Berkshire's Head Office for his secretary. This was a reference to the publicity Debbie Bosanek got when being a guest of Barack Obama's at his State of the Union address. Buffett, in promoting higher taxes for the very rich, had said that his secretary had a higher effective tax rate than he had – even though he earned in the region of $50m each year. (His Berkshire Hathaway salary is $100,000 and the balance represents his non-Berkshire investment income.)

Some of the reported 35,000 Berkshire shareholders who attended the event.

There was also a replay of some footage of the 1990 meeting which had a "remarkable" 1500 people attending.

### *"The Q&A session lasts about 5 and a half hours"*

The Q&A session lasts about 5 and a half hours and Munger and Buffett take questions in turn from three different sources: from the shareholders present, from three journalists (from Fortune, CNBC and the New York times) who had been emailed questions by shareholders and from a panel of three analysts (Barclays, KBW and Dowling and Partners) who all cover the stock. Buffett and Munger have no advance notice of the questions or the topics. This year there were 66 questions asked and I have picked out some of these that I think would be of most interest to an Irish reader.

### US and European Banks

In response to a questioner from Vienna (the mostly American crowd were amused that his surname was Fuhrer) Buffett said that he thought the American banks were in a much better position than 3 or four years ago. They had taken most of the abnormal losses they needed to absorb and they had improved their capital ratios and liquidity.

The European banks still needed more capital. They had traditionally been more dependent on "wholesale" money which was less dependable. While the ECB had solved the liquidity problem for a while by injecting a trillion dollars into the European banks the underlying problems still remained.

## Would the Euro survive?

Continuing his answer to the previous question Buffett said that Europe was not a "full federal union." Europe and the US were like "night and day" The US had the willingness and the power to take corrective action when needed. It was very difficult to get 17 countries to agree on anything. There was no effective leadership – as Kissinger said "If I want to call Europe who do I call?"

These thoughts echoed comments he had made in a CNBC interview the previous day in which he said that "he wasn't sure the Euro would be around in its present form in 5 years time."

## Gold

In response to a shareholder from Phoenix, Buffett re-iterated that he didn't recommend holding gold as a way of preserving wealth. He said that owning a producing asset (farmland for example) was better than gold. At the end of 100 years you would still only have your stock of gold. The farm would still be there but you would have had 100 years of income from it which could be re-invested. When Berkshire stock was priced at $15, gold was $20 an ounce. Today gold is $1,600 and the Berkshire share is $120,000.

## Investing in Government Bonds

A shareholder from Boston asked about investing in sovereign debt. Buffett first said that people assumed that sovereign debt was secure but history showed that countries do default. Default didn't cause wealth to go away but did cause a "reallocation" of wealth. In any event countries needed to wean themselves off deficit financing. He wouldn't recommend medium term government debt. Aside from any sovereign risk, interest rates were abnormally low. Higher interest rates were inevitable at some stage and this would cause a fall in the value of bonds – including US bonds.

He wasn't sure how the Euro would play out but in 10 years time Europe would still be producing what it is producing today.

## Berkshire's Share Price

There were a number of questions which reflected shareholders concerns about the current price of Berkshire's stock. He was asked why he didn't buy back more stock even above his previous target of 110% of Book Value and whether he would start paying dividends.

Buffett said that in 47 years Berkshire's stock had sometimes been overvalued and sometimes undervalued. He was sure that this would be the case in the next 20 years too. He said that it was clear that many of Berkshire's businesses were undervalued in its balance sheet. (This was one of a number of hints given that he thinks the share is undervalued but people were disappointed that he didn't say it outright.) He was very critical of many CEO's reasons for buying back stock. He said that they want to issue options at the lowest possible price and buy the shares back at the highest possible. This was not in shareholders' interest. His only interest was to have the share worth more the next day.

**Stephen** with **Peter Cloonan** attending the Berkshire Hathaway 2012 Shareholder's Meeting

Buffett said that he wouldn't want to pay dividends while he felt he could create more than a present value dollar of value for a dollar invested. They had found the investment opportunities in the last few years to be better than they had forecast a few years earlier. They might be able to invest up to $100B in Mid American Energy in the next 10 years at good rates of return. If they paid out dividends, shareholders would be taxed on them and would be worth less net than they would be if the money had been left in Berkshire.

Munger said that he felt the dividends, would come in due course as they would eventually find it difficult to "multiply the rabbits". He got a laugh when he said that they would think about dividends again when they were older.

## Compensating Berkshire's Investment managers

As part of its succession planning Berkshire now had two investment managers who were each given a modest amount ($1.75B!) to manage. Buffett was asked how they were paid and how he ensured that they weren't over-rewarded for short term performance.

Buffett gave a comprehensive answer on this. He was always as concerned about how performance was achieved as much as he was about the performance itself. Both managers had great quality of character and were showing real commitment to Berkshire. They were paid a salary of $1m each and a bonus of 10% of the amount by which they beat the S&P index on a three year rolling basis. Todd Combs had a great first year but he could lose it back. Ted Weschler only joined this year. They work independently of him and use their own brokers. He has recently given them an extra $1B each to manage bringing the amount up to $2.75B each.

## Investing in Newspapers

An investor asked why, given his previously expressed views on the future of newspapers, he had bought the Omaha World Herald. Was there an element of self-indulgence in this?

Buffett said that he hadn't changed his mind about the future being faced by newspapers. They were expensive to produce and distribute. They had lost their "primacy" for many types of information. People would no longer see them as a primary source of information for stock prices, job opportunities, NFL results and apartments to rent. He did however see a future for local newspapers where there was a sense of community. Local news and items like obituaries would still be of interest. He felt that based on what he paid it would "work out ok". (I wasn't convinced by this answer. I wasn't sure that he would have bought it if it wasn't his local newspaper but he has made a lot of money by swimming against the tide of conventional wisdom and I cannot make such a claim!)

## Why did Berkshire hold $20B in cash?

Becky Quick of CNBC asked this question put to her by a shareholder from Chicago. Buffett's answer was to say that $20B was not a "magic number". They didn't rely on 3rd sigma or advanced math. They thought about risk all the time. They thought about worst cases and added a margin of safety. They didn't want to go "back to go". They had 600,000 shareholders. Members of Buffett's own family had 80% of their net worth tied up in Berkshire. He and Charlie were never going to risk what they had in order to stretch for what they didn't need. In 99 years out of a 100 their attitude to risk meant a lower return for investors but in the 100th they would survive when others wouldn't.

In relation to using complex formulae to evaluate risk Munger said: "To a man with a hammer every problem looks like a nail." People tried to fit reality into models and this created a lot of false confidence.

## Buying Technology Stocks

Andrew Sorkin asked on behalf of a shareholder, whether, now that Buffett had bought IBM, he liked other entrenched technology leaders like Google or Apple.

Buffet said that he thought both these companies were extraordinary. They made lots of money and had fantastic returns on capital and looked "tough to dislodge." Buffett and Munger though, found it difficult to predict their next ten years. Munger said: "What do we know about computer science, we have the reverse of an edge – we can be sure others can see their future and we cannot." Buffett said IBM was easier to understand. He would not be surprised to see Apple and Google worth more in 10 years time and while he couldn't get to the level of conviction needed to buy, "I sure as hell wouldn't short them."

## Buffett's Health

It was an hour before Andrew Ross Sorkin of the New York Times asked a simple question: "How are you feeling?" Buffett said that he was "feeling great". He added that he was having fun, that he loved what he did and the people he worked with. With his wife and his daughter he had met with his four doctors and been assured that his prostate treatment would not involve any hospitalisation or any days off work and that there was only a tiny chance that he would die from this particular disease.

Munger quipped that he resented all the attention that Buffett was getting as he probably had more prostate cancer than him but he didn't allow his doctor to test for it. Buffett retorted that he wanted the sympathy as his secretary was getting too much attention.

## Berkshire After Buffett

This was a big topic and there were a number of questions on different aspects of the issue.

Buffett had previously said that his job would be split in two – a Chief Executive Officer and a Chief Investment Officer. The board knew who is to take over if anything happened to Buffett in the next few years. Carol Loomis of Fortune asked whether his successor as CEO would be offered the same deals as he is and also whether they would manage risk as well has he does. The answer given on that question was that every CEO should be his company's chief risk officer and that is as important a part of Buffett's job as allocating capital and picking the mangers of the operating units.

On the access to deals question, Buffett said that his successor would also have the ability to commit large sums and that people would know that he had the authority to do big deals and could act quickly. His successor would be more energetic than Buffett and might make somewhat different deals but in any event the making of special deals like the Goldman Sachs and GE ones wasn't as important to performance in recent years as the contribution from the big companies like the BNSF railways and the stock bought on public markets. He pointed that the recent IBM purchases had been bought in the market over a period of time.

A shareholder from Chicago asked whether some of the key operating managers might leave when he retired as they would be working for a "peer" rather than a "legend." Buffett's response was to say that his successor wasn't the type of person who would put off Berkshire managers. A majority of these already didn't need to work and they worked for the same reason he did: he wanted to "paint his own painting" and so did they. The same questioner asked whether Berkshire could be bought and perhaps broken up by a large hedge fund. No, he was told. The numbers would be too big and in any event his family would still control a lot of stock as it is being given to charity gradually over time.

## After the meeting

After the meeting the feeling among those present was that the questions had been better than in recent years and that both Buffett and Munger had been as impressive as they had ever been. Some felt reassured that the money being made by Berkshire would eventually be reflected in its share price. A minority felt that there was now a negative "Buffett factor" and that the share price would never approach its real value while the company was run by an octogenarian – even one who was the most successful investor of all time.

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