



**Notes from the Meeting Dr. George Athanassakos and Ivey MBA and HBA students had with Mr. Warren Buffett  
Omaha, NB, January 31, 2014, 10:00 am - 12:00 pm**

***Question #1:***

As we grow up, our motivations have changed. What is your motivation now and what motivates you every morning when you wake up?

***Answer #1:***

I want to be the oldest man! There are a lot of things I can do, and I love to work with the people here. I can do the job I love at Berkshire. I get to paint my own painting. I come to work and no one tells me what to do. It's a free canvas. I can choose the colour to paint with. It's the same with my managers. I give them their own brush, and they can paint their painting individually. They do a very good job. At Nebraska Furniture Mart they're expanding into Texas. The job won't change their lives significantly, but it's their painting.

You will want to find a place that you admire and work for them. I'm doing what I love doing. I took a job at the age of 23 with Ben Graham, I offered to work for free and he said I was overpriced. Eventually he did give me a job and I didn't ask about the pay. I loved it and that's the job I'm doing now.

***Question #2:***

You said in a 2010 interview that the best advice you ever received from your father was unconditional love. How has that impacted your business decisions?

***Answer #2:***

Yes, I said that the greatest gift that my father ever gave me was unconditional love. Now, that doesn't mean that you get applauded for everything that you do. My father definitely told me if he didn't agree with my actions, but I always knew that he would be there for me.

When I was 13 I moved to Washington. I didn't adjust well and my actions were not exemplary. My father talked to me and told me that I could do better. Throughout my life my father told me he supported me no matter what I wanted to do. It's an enormous factor. If you receive it from your parents that's great, if you don't, it's an uphill battle. That's why, for you guys, choosing a spouse is the most important decision in your life. You need to choose a spouse who believes in you and will give you that unconditional love. The best way to find a spouse like this, I think, is to be lovable.

I became very good friends with a woman who was a Polish Jew. She was in one of the camps during WWII and her sister and her mother were in different camps at the same time. Unfortunately, her sister and mother

never came out. After this experience, she was always very slow to make friends. She would always say to me, "Warren, every time I meet somebody, I always ask myself, would they hide me?" There are some very rich people whose children wouldn't hide them. There's the poem that reads:

A bell's not a bell 'til you ring it,  
A song's not a song 'til you sing it,  
Love in your heart wasn't put there to stay,  
Love isn't love 'til you give it away!

Lots of rich people who don't understand this live very empty lives. No matter what, if you have unconditional love, you'll be alright.

**Question #3:**

In the acquisition of Heinz, you funded the purchase with debt and partnered with 3G Capital. 3G typically take activist roles, often changing management, while Berkshire Hathaway usually leaves management in place. What made you comfortable with welcoming 3G's strategy?

**Answer #3:**

The head of 3G Capital, Jorge Paulo, is a good friend and an amazing manager, and mentioned he was looking at Heinz and asked if I was interested. He sent me a two-page proposal, one page financial and one page addressing governance, and I didn't have to change a single word. They are great managers at 3G. No matter how well a business is doing, it can always do better, and 3G managers are the best managers I've ever seen.

At Berkshire Hathaway, we're hands off. We have 70+ businesses, and they generally run themselves. For example, Burlington Northern Railroad has a \$4B capital budget, and I don't review this budget or its capital allocations because I trust their managers. People sell their businesses to Berkshire because they know they will retain control, in part, and won't have to give up what they love. They stay with Berkshire Hathaway forever and appreciate our hands off approach.

Our hands-off-strategy is opposite to that of Jorge Paulo's group. They run the businesses that they own, and they do an amazing job. 3G are great managers, and Jorge Paulo is a great man. We partnered up about a year ago, and we're likely to partner up again sometime in the future.

**Question # 4:**

Do you believe growth, quantitative and other passive styles of investing will eventually overtake the active investing style?

**Answer #4:**

There will always be opportunities in the market because of people doing extreme things. Long-Term Capital Management helped with the problems at Salomon. Humans created what happened there, but it wasn't because they didn't have knowledge of markets. In 2008 what happened was also man-made. What happened to Fannie and Freddie, and Lehman in September was man-made. All these things caused extreme valuations.

One of the trades at Long-Term Capital Management is that they would go short on the so-called "on the run" treasury and go long on the one that was slightly different in maturity when they had a spread of 10-15 bps. A new 30-year bond would come out and it would be the "on the run" issue, but there was nothing wrong with a 29-year and a half bond and basically they were the same instrument. They set this trade up to just keep working, but you would have to do it with extreme leverage to make a lot of money. The spread went out to 30 bps, which was crazy to have between the two treasuries, but it happened. That broke certain people, but it offered opportunities to other people who always made sure that extremes in markets could not kill them. That will happen again. You are going to see incredible opportunities. It won't be frequently, but you will see them in your lifetime.

When I got out of school in 1951, in those days they didn't have the Internet, so instead we had these big manuals. Standard & Poor's and Moody's put out some manuals. At the age of 20, I started going through these

books page by page. I also went through the Industrial manual, the Transportation manual, the Utility manual, about 10,000 pages in total. I was looking for things that were cheap. When I got to the back of the book, page 1433, there were companies I had never heard of, but here was a company called Western Insurance Securities. It showed they were earning \$29.09 per share. The year before they only had earned \$21.66. That didn't tell you much until you turned the page and looked at the common stock, and the price on the common stock for the previous year had a range of \$3 to \$13. By the time I saw it, the stock was \$16 per share. I went to the local representatives, the people were good and they had good underwriting. There was nothing wrong with the company.

Somebody told me to take a look at Korea in 2004. They gave me this manual of all the Korean securities. One Sunday I went through this and picked about 20 or so stocks, which were similar to the ones I picked in Moody's. I found a company and presumably they make flour. I would look for good balance sheets and trading at 2 times or 3 times earnings and a business that wouldn't go obsolete. I didn't know enough about any specific ones to put half my money in them, but I knew if I bought 20 stocks I would make very good returns.

Money and courage is needed to invest like this, not even that much intelligence. You only need an IQ of 130, and then you should sell the excess to someone else. What you need is emotional stability and the guts to do things when others are petrified and frozen. It's happened many times in my life. The human animal will react the same. In the fall of 2008, you had 30 million Americans who owned Money Market funds. In aggregate they had three and a half trillion dollars in those funds. To put that money in context it was worth about half of all bank deposits. At the start of September, no one was afraid of these funds, because they it looked exactly the same as cash. Two or three weeks later, when Lehman failed and it went from zero people who were worried to 30 million worried. In the first 3 days following, 175 billion dollars flowed out of money market funds and they had to sell something. They sell the governments first, and it just cascades. When fear enters the room people panic. Confidence comes back one at a time, but fear is all at once.

You will see it again. The future won't be exactly the same, but it rhymes. There will be as much opportunity for value investors as there has ever been. It's just when the opportunity comes along you have to go do it and people won't be cheering you on.

**Question # 5:**

If you could invest in only one country -- other than the US -- what country would you choose and why?

**Answer # 5:**

It might well be China. But I would want a big market because we have big money to invest. I like Korea too, but again, it would have to be a big market. It might even be Japan.

We spent last year, in our businesses, over \$10B on plant and equipment. It was a record year. And 90% of that was in the United States. We like the idea of investing outside of the United States, but A) the deals aren't as big, and B) they're not on the radar screen to the same extent.

Our largest investment outside of the United States, interestingly enough, was in Israel. But that was because I got a letter one day from a fellow I have never heard of. It was a page and a quarter long and in it he describes his company and he said 'our family owns it and we only want to sell to Berkshire. If you don't want to buy it, we're not going to sell it. If I've interested you, I'd be glad to come over from Israel and tell you about it.' Well the letter jumped out at me, so I invited him over and he came over. We bought the business for \$4 billion.

We do buy things from all over the world, but they don't come up that often. It just isn't the same as it is in the United States.

But I would say you want to be in a big market and in a place where you have the prospect of a really big return. And you have to understand the game. I would want to know that I understand it. In Korea, I knew about 20 stocks with good balance sheets but those alone can't move the needle at Berkshire. We've got a

huge market value at Berkshire, and so to make real money at Berkshire we have to find big deals. Charlie and I have to go out with our elephant gun; the fly swatter won't cut it.

**Question # 6:**

What are the top three global problems that you are trying to tackle with the Bill & Melinda Gates Foundation?

**Answer # 6:**

The top three global problems cannot be tackled by the foundation. Today, we are all living better. Real GDP has increased and people bemoan the 2% GDP growth, but if the population increases at a rate of 10%, that's 20% more output. It is the cyber, nuclear, biological, and chemical attacks that are the problem. Few governments wish ill upon their neighbors. We have always had radicals and will always have them, but the number has increased, as has their ability to inflict damage. The threat is dependent on intent, knowledge, access to raw materials, and deliverability. Intent has always been there and will always be there. The spread of knowledge is increasing. The only complication is the raw materials. However, something will happen eventually because the offense is always ahead of the defense. The foundation cannot tackle these problems as they are governmental problems. When it comes to philanthropy, a person is forced to pick between something that you know you can do or pick something that you might fail at, but one time in four, you might make a big difference. There is equal value in every life; you have to determine how you can have the biggest impact. Right now, the foundation is working on improving medicine outside of the United States, specifically targeting polio. There are many health prospect changes that can be made around the world and a lot of educational opportunities within the United States.

**Question # 7:**

What is your opinion of the emerging economies like Brazil? Would you be looking to invest in companies in these types of markets, and if so, in which sectors?

**Answer # 7:**

I have made a number of trips to Brazil and have a fair number of contacts there. I don't have a favorite sector at this time. It's not for me to find ideal sectors; instead nations should promote their key sectors for their particular country. The only criterion I have at this point, is that the investment should be big enough to move the needle at Berkshire. The company from Israel is a good example, where I invested even without visiting the operations. I just try to find a good pitch from a business which is big and has efficient and trustworthy management. If someone can clearly tell me what he has as a business and what he can do as management, I'm willing to invest within 10 minutes (assuming I like the opportunity).

**Question # 8:**

How would you rate your own success on a scale of 1-10?

**Answer # 8:**

I don't believe I'm very different from others. I still eat the same food, have a good time when I go out with friends, just like others, the only difference is I travel a little better now. I take my jet when I travel. Success for me is doing what you love and are passionate about and as long as you are doing what you like you'll stand out and outperform. If I have to rate myself I'll always believe I'm a 10. I feel that the way the rich often show off their wealth as a form of "elephant bumping". Buying another house would only be an inconvenience, I'd feel obligated to stay in it instead of my current home which is quite comfortable. For example, I don't like yachts. They only offer the opportunity to do things with greater difficulty at sea, where I feel trapped, that I could have easily done on land (at the Y) for a fraction of the cost. Ultimately, money is not the ultimate measure of success, but rather, it is how many loved ones you have around you.

**Question # 9:**

What was the thinking behind the kids' series "Secret Millionaires Club"? What are you trying to teach kids about money through the series?

**Answer # 9:**

My father never pushed me into anything and I tried to do the same with my children. None of my three kids finished the college – we have one degree to pass around the family between the three of them. You got to find your true-self; no one can teach you that. For secret millionaire club I did a series of cartoons in (about) 14 episodes. I played myself and taught history and secret millionaire 'ideas' to all those kids who might otherwise grow without the 'right habits' in regard to money. Myself and the producers hoped to instil better (financial) habits and to help the kids develop. This initiative later caught on with few celebrities and some of them, including Bill Gates and Jay-Z, even appeared in few of the "Secret Millionaire Club" episodes. Some of the issues we tried to address included credit card use and bad debt.

**Question # 10:**

Females working in male dominated industries, what advice do you have to give young female professionals in an industry dominated by men?

**Answer # 10:**

Look at how far we came using only half the talent pool, think of what we can do with 100%. If you read the American constitution, when defining judges and congress, it doesn't use personal pronouns, but for presidency, it uses "he" and "his". Also, we had Thomas Jefferson saying "all men are created equal" and again repeated by Abraham Lincoln. But since then we had the 19th amendment, giving women the right to vote. Things are moving along.

Over the last 20 years we have seen a lot of industries change significantly. For instance, Tracy Britt, a 29 year woman, is the Chairman of 4 companies. When I was growing up I met a 98 year old woman in Seattle who was the first female to graduate from Cornell. She had to stand behind a curtain in anatomy class. There's still a long way to go, but we're moving quickly.

If you are working in a male dominated company, just hope that Berkshire Hathaway buys them. If you have a child, 9/10 times the women will do the house work and have a more interrupted life; life is tougher. However, a company that ignores half the talent won't be competitive over time.

Growing up I had teachers who had so much talent because at that time women had only a few options (teacher, clerk, secretary, and one other), so they were way over qualified, and should have been doing something else. I feel I got more than I deserved.

**Question #11:**

What is the one question you would want to ask if you had an oracle?

**Answer #11:**

The most important question of all humanity would be, is there a god? I'm agnostic, but I would still want to know. That's the greatest question in the world. Much sooner than you guys, I will find out (laughs).

I like the world it is now, because there is enough uncertainty. I can say I've seen this part of the movie before, but still won't be able to predict the ending. I like it that way as the past is relevant, but it's not determinant of the future. The game is very interesting the way it is now and I wouldn't want to change too much of it.

**Question #12:**

What do you think was your best non-financial investment in life?

**Answer #12:**

My two marriage licenses, which I don't know how much I paid for, but if I had to pay a million times that it would still be a bargain. I guess you are looking for a tangible asset, so I would say my home. At the time that I

purchased it, it used up a fair amount of my free capital. The reason why it was so worth it, is because everything has happened there. My kids grew up there, and it's where they and all their friends congregated. Their friends still come around when they're home. While there was a financial side to it, the main motive was not financial and every reason I had to buy the house was fulfilled.

A little while ago, we celebrated my good friend and business partner Charlie's 90<sup>th</sup> birthday there. We had about 280 people. For a while now I've suspected that Charlie's hearing has been going, but I didn't know how to tell him. I went to the doctor and asked what the best way was to find out and the doctor said to stand across the room, speak at a normal tone of voice, and see if he responds. So at the party, I stood across the room and in a normal tone of voice I asked, "Charlie, I think we should buy Microsoft for \$35.00, do you agree?" He didn't respond so I walked half way across the room and again said, "Charlie, I think we should buy Microsoft for \$35.00, do you agree?" Not a flicker. Finally I walked up almost right beside him and asked, "Charlie, I think we should buy Microsoft for \$35.00, do you agree?" He looked me straight in the face and said, "For the third time, yes!"

**Question #13:**

Berkshire aims to buy companies that run themselves. When have you had to restructure a firm's operations or management team?

**Answer #13:**

We've had to change managers, but we've never really had to restructure entire businesses. Changing managers is my least favorite part of this job; however, it is inevitable. We have no retirement policy, and managers know what you're saying is that they're losing it. Most of these managers are friends, and I just hate it. Berkshire has definitely changed managers less than our peers. We own 70+ businesses, and we typically have to change 1-2 managers per year.

One example is an insurance company on the West Coast, where I was good friends with the owner. He developed Alzheimer's, and I delayed taking action for a few years because he was such a good friend. I didn't want to acknowledge it, and I didn't want to see it. I've almost always change managers late. I shouldn't do it late, but I will continue to do it late. In another situation, I had to confront a long time CEO about retirement and he told me: "If I was in your position, I would do the same thing."

Typically, I send a one to two page letter to managers each year with limited instructions, and I ask for a page back to tell me who should succeed them if something happened overnight. Changing managers is part of capitalism, and it is therefore my responsibility; however, this makes it no easier to do. It is also important for me to distinguish between bad investments, which are my fault, and poor management. The CEO is extremely important to a business, so we must take action to get the company back on track. The right CEO equals the right business.

Boards are also a social institution. It is hard to fire people who are good, genuine people but mediocre managers. This is actually the biggest problem in corporate America. I have sat on 19 boards, and it is hard to get rid of upper class mediocrity. It is hard to want to do it.

**Question #14:**

What is the biggest mistake you've made in your life and what have you learned from it?

**Answer #14:**

Using Berkshire as the vehicle for the company that has been built. At the time when I owned some shares in Berkshire they were closing down mills and buying back tender offers. The company had asked a price I would tender at, and we had both agreed by word on \$11.50. A month or two later, when I received my tender, they went back on their word and offered at \$11 and 3/8ths. So I went out and bought all the shares and he was no longer CEO. It was a lousy business, but doing well at the time for a short period. I was still running a partnership in Omaha and in early 1967, a local fellow, wanted to sell National Indemnity Insurance Company and I bought it. I bought it and instead of forming a new company to buy it, I put it in Berkshire. I put a good company in with a lousy business. If we had built what is now Berkshire around the insurance

company we would have owned 100% of it instead of what was later to become 70%. And we still had this textile business, which we lugged around for 29 years, which brought down the returns. It was a terrible base on which to build a business.

I made a mistake when I bought a shoe company in the 1990's up in Maine. I gave them \$400M of Berkshire stock for a business that was worth zero. I should have paid cash. Now their shares are worth \$5B. Every time Berkshire stock goes down I feel a little better about that deal. That was really dumb and it was a double play dumb.

In my personal life I just got enormously lucky. I was very lucky with parents, and in terms of the teachers, not just the formal ones, but also friends. The biggest piece of luck I've had is that I have developed 15 or so close friends in my life, and I have never been disappointed by any one of them. Beginning with my partner Charlie Munger, it's hard to find a partner like that and it's almost as important as a marriage. We are both strong-minded, we disagree, but we have never had an argument. These people are my heroes. It's terrible when you get let down, but that has not happened yet. I've made a point at associating with people who are better than I am. You will move towards the behavior of those who you associate with and you will become more like them.

I've had some bad business luck, but you pick yourself up and move on to the next thing. Maybe I'll have some bad luck with this basketball tournament and be out one billion. It'll be fun though, I'll go to the game with the one guy left and bring a cheque for a billion, and we'll probably cheer for different teams.

**Question #15:**

Since 2008, what's the best pitch you swung at and what's the worst?

**Answer #15:**

One challenge Berkshire faces is that the company is so large now that it must deal with large deals. Before the 2008 downturn, Berkshire made a commitment to buy a stake in Dow Chemicals for \$3 Billion, but the deal came into effect after the events of October 2008. Berkshire stayed true to the commitment and made the purchase, but in hind sight, there were a lot of better deals to do with \$3 billion. Another thing in hindsight is that Berkshire invested \$15.5 billion between September 15 and October 15, 2008. However, this was pre-emptive by a few months. Had Berkshire not used up the powder early on there were likely better deals to do in early 2009. Burlington Northern has been a great investment and luckily Berkshire had enough money to get the deal and the company was fortunate to have gotten the business.

**Question #16:**

In 2010, along with Mr. Bill Gates, you publicly announced The Giving Pledge, encouraging the world's wealthiest people to give the majority of their wealth to philanthropic initiatives. Prior to the pledge, you had intended to give the majority of your personal wealth after your death. However, this mindset was changed and your giving now follows a planned schedule. What was the cause of this change in mind set and what is your view of social investing (investing not just solely for profit, but with social objectives)? Do you believe there is a place for social investing or do you believe profit and philanthropy should be separated?

**Question #16:**

When my wife passed away in 2004, my plans for giving changed. I decided early on that my wife and I had everything that we needed, and that we would give all the excess back to society. Originally, 85% of my wealth was to go to five foundations. I recently decided to double the amount that I'm going to give to my children. I have also pledged that all of my shares of Berkshire Hathaway will be given to the foundations and must be spent within 10 years. I want the current management to make the decisions, who knows who will be in charge after 10 years. The young successful generation, people like Zuckerberg, have the ability to influence the younger generation to socially invest. I do not personally believe that investing and social causes mix. Most proposals that mix these two are confusing and blurry, and as a result, perform poorly as investments and businesses.

**Question #17:**

Mr. Buffett, can you comment on the recent March Madness bracket competition and the use of Berkshire's name on real-estate? Is this the start of the commercialization of the Berkshire name?

**Question #17:**

The \$1 Billion March Madness bracket is actually an insurance transaction. Quicken loans will give \$1 Billion over 5 years to anyone who gets a perfect bracket. Berkshire is insuring Quicken Loans against the prize. Berkshire has done similar deals in the past, for example with PepsiCo, which did a contest for someone to draw a certain number. Abnormal insurance transactions are something that Berkshire does. For example, Berkshire insured Alex Rodriguez when he went to the Texas Rangers. Berkshire insured the NCAA tournament once. Berkshire will listen to any insurance proposition and do a deal if it makes sense.

With respect to the question about real-estate branding, Berkshire Hathaway HomeServices Network has grown steadily over recent years into the second largest brokerage in the US. Some of Berkshire's holdings include Clayton Homes as well as the rights to the Prudential's real estate franchise name which was acquired two years ago. The recent branding to operate as Berkshire Hathaway HomeServices Network just makes sense and isn't a big branding push to try and use the Berkshire name more.

**Question #18:**

What is different about your strategy in the "Private" market?

**Question #18:**

Under today's conditions, there are lots of deals in the private market, people are buying from each other. There's lots of competition and pressure to buy now or return the money. Berkshire Hathaway only buys if a controlling family/shareholder wants to sell to us. They will come to me and say they want to sell their business to Berkshire Hathaway. They can probably get more money selling to someone else, but they know when I say I am going to buy a company, the deal will close under any circumstances; I won't change the deal on you. Whereas PE firms, after doing due diligence, will change the deal on you. They know when they sell to Berkshire Hathaway it will be a part of Berkshire Hathaway forever. Employees won't have to worry about what will happen the next day.

If you have a good business, why sell it? There however are circumstances that may force you to sell, like family issues or a deep recession. For instance, we bought Burlington because we were in a deep recession. We, Berkshire Hathaway, are the best game in town, except for price. We stick to the price that we give, if I say \$x, its \$x. We don't negotiate and this saves time.