2008 Wesco Shareholder Meeting: Detailed Notes
by: Shai Dardashti posted on: May 09, 2008 | about stocks: BRK.A / BRK.B / WSC

Wesco Annual Meeting, Pasadena CA 2008
May 7, 2008

Notes courtesy of Peter Boodell; thank you!

http://valueinvestingresource.blogspot.com/2008/05/2008-wesco-shareholder-meeting-detailed.html

(As is standard, no recording equipment was used to reproduce these notes. My high school typing teacher gets all the credit. As a result, these notes are recollections only – not quotes, and should not be relied upon as a literal transcript. –PB)

CM: Testing, can you hear in back? Mr Denham has an announcement.

Denham: We ask you not to use your video recorders, thanks.

CM: Welcome to the 49th annual meeting of shareholders of Wesco Corp. Please register to vote at entrance. Anyone wishing to speak, state name, wait for microphone. List of shareholders, 96% of outstanding proxies received. Election of directors? All in favor? [Aye]. Motion is carried.

Six nominees are elected. There will be a long Q&A preceded by Socratic solitaire conducted by the Chairman. Meeting is adjourned.

We now begin Q&A, starting with a long game of Socratic solitaire. During questions, do not ask what we are buying or selling. Any other question is fair game, but we don't agree to answer them.

Because many of you have come from such a long distance, I will talk before I take your questions. I will address two topics, general investment climate [and learnings from Berkshire Hathaway]. We normally avoid [discussing the general investment climate] like the plague. Most assets are priced to a level where it is hard to get excited. It is hard to get 4% yield on a nice apartment, and it doesn't include replacing the carpets. Bonds of strong corporations are 4% yield. Corporate equities are paying 2% pa, growing 4% per year. Such a world isn't the one that made all of you able to come to the meeting. Last generation has been in hog heaven – some bumps, but it had easiest time getting ahead. In the eighteen years that preceded hog heaven, the purchasing power of Yale's endowment went down 60%. They were getting real investment return of 0%, negative. It is not at all impossible that brilliant investors like Yale get bad results in the future.

People are used to laying money aside and investing in standard fashion, and become quite comfortable. It is easy to forget that this isn't guaranteed. Many have recognized this, but for those running pensions it is difficult [to adjust down assumptions] —like the agony of raising taxes or not looking good as CEO of a company. Some of them wonder if they have signed up for something too hard when running a defined pension plan. That crowd doesn't want to go to a 4-5% assumption, because the pain of the money needed to correct the plan is large. Bonds pay 4%, so they go to alternative investments with profit sharing. They solve the problem by giving 'reasonable return' and sell hedge funds and venture capital fund, mid-stage, late stage, private equity, etc etc etc. They do complex trading strategies, private equity in Africa. They buy timber. [audio system malfunctions] Evidently that machine didn't like the remark. People go into alternatives, and this has worked very well so far. A lot of university endowments have done it – and that is game we are in. If natural return is 5%, getting it to 9% is very unlikely to work well long term. It's going to be difficult for people to have high real returns from deferring consumption. The reason my generation did so well was kind of a fluke, and won't necessarily continue. There will be lots of chicanery in future. Many claim alpha – but really they are just taking earthquake risk. At end of year, when there is no earthquake, they take the money. This is a dishonorable way to invest. It is always easier to get felicity by reducing expectations instead of seeking extreme results.

We have plenty of scandals coming. Lots of rot has gotten into system. It has caused unpleasantness. What is next? I suggest the derivative trading books of the world are next. The accounting allowed in derivative books has been god awful. The morals and intelligence has been god awful. 'I'll be gone and you'll be gone' is phrase they use. What is buried in those books is dangerous, with clearance risks with optimistic assumptions that the accountants allowed. I was at Salomon when interest rate swap accounting was changed. They had a matched book. They were making $7mil, 25m over 18m. Both sides wanted to mark trades profitably. They couldn't retain derivative traders if they didn't have bad accounting. There is a lot of Gresham's law here, where the bad practice drives out the good.

If you run a good bank, and testosterone bank around corner pressures you, there are tremendous pressures to conform. Everyone starts replicating. If every university puts 2% into timber, that can go on a long time. But it is self-fulfilling. When it comes to the unwind, when they all want to get out. A lot of things rely on momentum. Valuations make everyone look good for a while.

We have seen consequences in this mortgage meltdown, not pretty. The amount of knavery and folly revealed in last eighteen months has been unbelievable. I will ask a question, then I will attempt to answer it. Why did this happen? Greed, envy, and terrible accounting was part of it. There was a general lack of conservatism. The engineering mindset that everything must withstand great stresses was thrown out for 'if music is playing, you gotta dance'. I don't feel compulsion to dance, to join the crowd.

One of my favorite stories is boy in Texas, when the teacher asked the class the following question. There are nine sheep in pen, and one jumps out, how many are left? Everyone got it right, and said eight are left. The boy said none are left. The teacher said you don't understand arithmetic, and he said ‘no you don’t understand sheep’. Sam Goldwin had a saying – ‘include me out’ – it is one of my favorite expressions.

People were distributing stuff that they wouldn’t buy themselves. It is the structure of the modern world. Favorite philosopher: Frankl. He said the systems have to be responsible. People who are making decisions must bear results of decisions. In Rome, the builder and designer stood under the bridge when the scaffolding was removed. In parachutes, you pack your own chute. Capitalism works that way too. At a restaurant, owner is bearing the consequences. If he slips, he doesn’t do well. Frankl would be pleased with restaurant business, and not pleased with investment banking. They sell, take the money, go home – it doesn’t work. And people wouldn’t get by if accountants didn’t bless it. When I was at Salomon, I was on the audit committee. A group came and said that we want to change our accounting, and where our credit is terrible – we want to report automatic profits – ie, to buy counterparties out cheaply because they want to sell. I told them that ‘You will have that accounting over my dead body’. I won that battle, but I lost the war.

Post Enron, accountants made mandatory that where the worse your credit gets the more profits you make. In the old system, the liabilities are always 100% good – it’s the assets you have to worry about. Accountants have thrown it out. They have made it standard. If you ask accountants about it, they say it is so complicated we won’t get to it in 3 yrs. They want something simple to do. A silly procedure and silly result doesn’t bother them as long as it is in some book. That is not wisest way to run a profession.

Legal profession comes in for own opprobrium. Knavish people were deliberately blind. They didn’t want to wrestle punch bowl away from a couple burly drunks. I had a friend who once proposed a rule at the partnership that they would fire one client per year on moral grounds. They would get rid their most venal and dangerous client once a year. That proposal went down in flames. There is a certain amount of deliberate blindness. If you want to prevent, you must have whole lines of activity that people are not allowed to engage in. [more problems with sound system] We are in shadow of Caltech and we can’t get the sound system right. Envy effects corporate compensation. People want to be paid like movie stars rather than archbishops. I don’t think it is necessary. Most would occupy top position at lower compensation rate. It is terrible to civilization. It brings extreme envy into population at wide. In Britain, they took taxes so high that anyone with property was leveled down to growing their own tomatoes. It was not good, very counterproductive. It was matter of envy. The working population required it and it was reaction to envy effects. It is not good to have the results we have had.

If we turn to Berkshire Hathaway, we have faults, but some of standard faults we deliberately avoid. Someone recorded what we would have had if Warren had paid himself 2&20. We would have had much lower taxes, so some other shareholders would have been better off, but Warren would have had 3x what he has now. Would world have been better if it had been run that way? I don’t think so. There is a lot to be said that people in power make money with shareholders, not off them. I’m not asking for an unreasonable ethos. It was compulsory in Athens. Liturgos, means required behavior. You had to give like hell if you were a leader. They had banishment. When language and traditions impose these… we might need it. We should restrict people in a more old fashioned way.

I remember what I was going to say. Privileges. If you are an investment bank and had to be rescued, there should be limits on leverage and the complications of your business. There should be qualitative limits too. By and large banks behaved well when it worked this way. When I was young, Bank of America – would not have done things they do now. Derivative trading, no good clearance, no rules, excess and craziness feeding on itself. The plain vanilla products got priced down to no profits. They wanted to do complicated stuff. Not sure if it cleared, or other side would be good for it. It didn't bother anyone since they wanted the profits. The hidden trouble in derivative books is awesomely large. Greenspan overdosed on Ayn Rand ethos. He never got it out of his system. As long as axe murders were a natural outcome, then they were okay. I don't think it is necessary – and think you can regulate ax murders away. People talk about marvels of system and risk transfer – but some of our troubles COME from having so much risk transfer.

After South Sea Bubble, Britain outlawed public corporations – only private ones allowed. And they led the world for 100 yrs. A modest amount of liquidity will serve the situation. Too much liquidity will hurt human nature. I would never be tenured if I said that. But I'm right and they are wrong. We don't need worst excesses. We do not need smartest people in science and math in computer driven strategies. This is not a plus for wider civilization. Derivative trading books – is one big clump of excess not having had its denouement.

I am now going to turn to a more interesting subject, the Berkshire Hathaway phenomenon. What are the lessons? On investment side, people are realizing that old fashioned idea of trying to get more value than you are paying for. I think that idea is gaining, and I think a plus for rationality. It doesn't make it any easier. By the nature of things, it will be difficult to make easy money.

How is it organized? I don't think in history of world has anything Berkshire's size organized in so decentralized a fashion. Net amount of bureaucracy is tiny, costs are low, autonomy in subsidiaries is vast, no common culture shuffling people around. How far can this go? This system has gone farther than any other system. Low cost, not a lot of envy effects – where everyone compares everything. People in subsidiaries have a feeling – whereby there is less fealty to headquarters. If you want an imperial headquarters which exacts a big overhead charge on the provinces – they will resent it. Net number of intra-subsidiary transfers is tiny. It has worked well. It can go a lot farther. No one else has been here before.

There are defects to the conglomerate system, where you have a separate quota system driven by headquarters driving provinces to meet central numbers. It causes a lot of expenses at headquarters. GE is good at running a conglomerate system. Berkshire has avoided the minuses. It can go farther. It has a system of running a financial system with low leverage and extreme willingness to let assets run out – that is quite rare. Most financial institutions talk our talk but don't walk our walk. People can't stand watching a place shrink. If you take General Re, they needed a derivative book like I needed a case of syphilis. It made headquarters more interesting. When we reached for money it wasn't there. Out derivative book produced $400m of losses, and we were more conservative than most places.

[break to fix the sound system]

We have moved to a hard mike, so please return to your seats. Microphone system has an educational value. What they should not be allowed to do – is anything that is too complicated. The hard mike system [vs the wired], lo and behold, is working as it always did. Systems need duplicative systems, back up system one, and back up system two. Complicated systems – the high priests usually don't understand it either. The system just goes out of control. Now we have government guaranteeing credit and then letting investment banks do what they want -- it is a very foolish system. They ought to have behavioral standards. They feel entitled, and that is not what they should feel with privilege of Federal Reserve backing. At Berkshire, we are ridiculously conservative. Even our reserves have reserves. We don't have to renew our credit every Monday morning. We behave in way that we never need to renew our credit, and we still don't need the money.

There have been comments on derivative trades we have done. If other people shouldn't be doing it, why are we? Other people pay us money because people know we don't have clearance risk, we are not at whim of other parties. It is a very different kind of a trade. The only reason we can make those trades is because there aren't many out there who others would trust to make those trades. If you ask me, would I give up all of the opportunities of derivative trading to go back to a simpler cleaner world like engineering of yore--I would do it in a heartbeat. But what we have seen in mortgage market is only an aperitif to what we would see, in a system with bad rules and incentives. Especially with the appetites of males – women wouldn't get us into this mess. In a soccer game, if there were no rules, people would destroy the body of the person on the other side. That is what referee is for. So we need referees to tell boyish adults not to hurt others. I don't make this stuff up. Mark Twain said that truth is stranger than fiction because fiction has to make sense.

Some people call you people cultists, but most here are people who want to learn. It is a very good thing to be in this world. I think we are accidently creating something which is a learning institution, which may work that way for a long time. I don't think Berkshire will perish when Warren dies. I had lunch with two Berkshire executives, and my heavenly days, those two guys are likely to make that business one of best in the world. How could there be a business like that buried in a place like Berkshire? There are very good things in this place. With reputation, comes duty. We should try to earn it. And run it in a way that people who succeed us do the same thing. That is what we are trying to do. Warren will never spend any of the money. He has never given a way a dime he needed. He deserves no credit as a philanthropist. I think we are part of something quite interesting and worth following. We get calls from people who trust us, and who don't trust anyone else. We don't get many calls like that, but how many of you get any?

I have rambled on. Academic response to Berkshire has been pathetic. It is soft science with enviable formulas. So you had to program a computer to buy only highly volatile stocks in order to make 7% per annum more? But if true, computers would do it. I don't know why people pay attention to those ideas. Down boy, they say, you just don't understand modern finance. And these are grown up people. One man, to whom they gave the Nobel, he kept saying Berkshire just lucky. A six sigma event – he wasn't going to change his theory on the facts available. Business is simple, the details are hard. You need mementoes in place to help you in daily fight.

The only duty of corporate executive is to widen the moat. We must make it wider. Every day is to widen the moat. We gave you a competitive advantage, and you must leave us the moat. There are times when it is too tough. But duty should be to widen the moat. I can see instance after instance where that isn't what people do in business. One must keep their eye on ball of widening the moat, to be a steward of the competitive advantage that came to you. A General in England said, 'Get you the sons your fathers got, and God will save the Queen.' At Hewlett Packard, your responsibility is to train and deliver a subordinate who can succeed you. It is not all that complicated – all that mumbo jumbo. We make bricks in Texas which use the same process as in Mesopotamia. You need just a few bits of ethos, and particularly engineering ethos. Think through the system, and get a margin of safety. Like this backup microphone.

Q1: Thank you Charlie. Financial risk transfers – 500trillion notional value. Sort of like Lilly Toms – things will get worse before they get worse. How does this all unwind?

When the Chinese A-shares went utterly crazy, you could predict this has to collapse. When mortgage excesses got crazy on slicing and dicing by scummy hucksters, it was similar. Derivatives trading books however are not similar. It has no automatic collapse surely to come. Some day it will be a mess, but I don't know when. The mess that would have been if Bear Stearns went under would have been awesome. In CDS, assume $100mil bond issue, and they allow issuance of $100b notional contracts. You have huge incentive for company to go broke. You are not allowed to buy insurance on other people, unrelated parties. There is no reason in America to have vast bets on $100m bond issue to which no one is party. It creates needless complexity and very perverse incentives. They say "it's a free market". The correct adjective is insane.

Q2: Mark from Auz. Last year I was concerned about solvency in banks. I had stocks sent to me in scrip form. Is it now safe to let large corporations hold our stock or safer to keep at home?

Good question. I think risks are low in a cash account at reputable firms. Even in a margin account I think risks are low. It is inconvenient to keep them at home. They all end up in depositaries anyway. Everyone relying on electronic blips. I think fairly safe.

Q3: NY. The amount of derivatives out there today 30tril, 3x GDP. Do you think volumes will present danger in future, have you ever spoken to someone who writes derivatives?

It is complicated. They show large profits. It is peculiar thing – allowed to morph to huge size. Interest rate swaps – overstated. So imperfectly regulated it has a danger to the rest of us.

Q4: CA. Named our son after Warren. We are in market for a house in CA. Wanted your views on house prices.

Housing prices are going down in most places in CA. If you want house in Pasadena, if offer price 1.8m better to start bid at 1.85m. So not going down everywhere. Generally speaking the time to buy a house is when you need one. If you make money on it, it is just a byproduct of you doing your family duty.

Q4: NY. Have you ever asked quality programs at subsidiaries to improve margins?

We try to buy companies so permeated by good ethos that they don't need checking from headquarters. We are trying to live in a seamless web of deserved trust. It has worked for us, and it is the ideal way to live. If your marriage partner has sixty page contract, you shouldn't enter. You want to get a seamless web of trust. If life is hard, you may need a command control system. But we try to avoid it.

Q5: NJ. Railroad regulation?

CM: They are regulated. Earned so little money for years, that I expect rules will be better in future. They have increased capacity in a great way. It has been costly. I would not anticipate regulatory burdens to be high because the railroads have behaved well.

Q6: NY. Rationality? No one is 100% rational. How do you reconcile rationality with irrationality required for successful human relationships?

CM: There are some relationships you couldn't have if you were rational. If someone asked you to join heroin smoking party, you wouldn't qualify if you were rational. I think rationality is of immense benefit. It is a deep moral duty, you must hold it in trust and must hone it. People who are no good at it, they have to go to a different guru. I was born into a different skin.

Q7: WA. Inflation?

CM: If you have competitive advantage, and make 10% of sales, and sales go up 10% due to inflation, you will tend to make a little more money. Whether we will earn less or more, my answer is probably earn a little more.

Q8: UT. General Re. Brandon resignation.

We want to stay away from that subject. But we will stand behind Joe Brandon. He did a magnificent job. We stand behind that observation. I would trust him personally. [applause]

Q9: TX. Howdy. US force feeding 2bil per day. $2b a day to other countries, is it sustainable?

I would not be running twin deficits if I was running this country. I would have policies that didn't push things as far as they have been pushed.

Q10: Dan Rizowsky. Discuss opinions and which model to reach a resolution?

We come to agreement once in a blue moon. Very seldom does he do something I wouldn't do. Once in a while will we change each others' view. We're like an old married couple, humph humph and a nod and it is decided – no conversation necessary.

Q11: Harold from LA. Comments on Alan Greenspan and Ayn Rand and finance professor who can't believe the success of Berkshire. Has there been a time like today when facts on the ground count so little for people in position of power?

You hang around with fellow ideologues. You should avoid this. Many people are totally confident they know the answer. When you have this confidence you need to get over it.

Q12: James Armstrong from Pittsburgh. You have said that Moody's and HBS have the best pricing power of anyone in the world. What causes Moody's moat to shrink?

All the rating agencies with 20/20 hindsight have performed poorly. When you perform poorly you impair your franchise. They weren't quite fundamental enough. Exact example of the kind of thing I was speaking about. In an attempt to make more, they made their position a little worse. This is obvious isn't it?

Q13: Scott from LA. With portfolio of $2m, vs. that of Berkshire, how would your mandate be different? Small vs mid, us vs intl, etc?

If I was managing smaller money I'd be looking in smaller places, I'd look for mispricing. But I don't want to change places with you. [laughter]

Q14: Matt from San Jose. California is single A rating. Only other one is worse is Louisiana.

Both parties have been gerrymandering the legislature. It's hard to get elected unless you're a left or right wing nut. It's a perfectly natural result in an insane system. We are not voluntarily going to change the system. I was the largest donor to the last attempt to change this system. We went down in flames. Stay tuned.

Q15: Sam from Santa Monica. What are your thoughts on the war on terror and the war in Iraq?

A: You're going pretty far afield. Terror is a hell of a problem. People are vastly overconfident in the solution. They are probably making an error.

Q16: Phil, shareholder. What would you do if you were Fed. Suggestions on short and long term solutions to credit crunch?

Changing the system so the system is more responsible. We had margin requirements for decades and the fed forced this. Now with the combination of options and derivatives margin requirements have vanished. Federal Reserve has no power to deleverage. I think the system is seriously wrong.

Q17: Casey from Pasadena. Strong return on intangible assets is what WB likes. What else do you look for?

We buy Kraft these days because we have so much money. We are accepting way lower returns now than we were ten years ago. It is natural consequence of the world getting more competitive.

Q18: What do you think of the treasury market with negative real yields?

It would be depressing if that was my best opportunity.

Q19: Forest from Ft. Worth Texas. Do you look at railroads from a replacement value standpoint?

Do you know what it would cost to replace Burlington Northern today? We are not going to build another transcontinental. And those assets are valuable, have utility. Now they want to raise diesel prices on trucks. Wish I was smart enough to identify this few years earlier. Avoiding the most extreme follies of man makes you better.

Q20: CA. Why has commercial property not fallen as much as residential?

Cap rates came way down and asset values went way up. Financing transactions are getting away from euphoric conditions. A lot of the real estate fortunes have been made with extraordinary leverage. Commercial real estate is not a good business for us but ok for the entrepreneurial types. We shouldn't be doing it.

Q21: Matt from NYC. How does Berkshire thru its subsidiaries manage an annual budgeting process?

We don't have one. Obsessing over budgets creates bad incentives. Just eliminate unnecessary costs. Budget committees tend to do just the opposite.

Q22: John, shareholder. Any recent books you recommend?

I'm a bug for history and science. Yes by Cialdini is good. Most of the psychology professors can't handle this real life material. It's not a perfect book and not as good as Influence. As Warren says, experience is what happens when you're looking for something else.

Q23: Peter, Yonkers NY. Which is better, insurance based float or money management float?

A: In terms of pure utilitarian perspective, you can make way more money in money mgmt than insurance business. There are few businesses as good as money management. Average returns in insurance property and casualty have been pretty pathetic. Once you have enough money you stop accepting compensation and just manage money -- it is more manly. At least 95% of the insurance businesses in the world are worse than ours.

Q24: Ashok from LA. Checklist?

I don't have a simple checklist. You have to work at it a long long time. I still do dumb things after years of hard work. The more big ideas you have the easier. We exclude a whole lot of things because they are in the too tough pile. If you exclude, you do better. Then you must have field where rationality will be rewarded. Some of political ideas – it is very hard to know how they will work out over next few centuries. We are not trying to involve ourselves. We look for things that can be done. But I have no little short list. People who sell strong abs on TV at night might have one. I have no rule for a strong brain.

Q25: Whitney Tilson. NY. You reported earnings, but not a single shareholder asked about it. I was hoping for a comment on Berkshire earnings, and on mark to market derivative losses.

It was a very remarkable occurrence. Like the Sherlock Holmes story – about the remarkable happening with the dog's behavior. Sherlock Holmes asks about the behavior of the dog in the night. "The dog didn't make a sound." "Yes, that was remarkable." That perhaps is teaching a lesson. Those people trust us. They trust Warren, and rightly so. You saw an interesting example of deserved trust working in real world and in Omaha. By the way, we love that position. The accountants don't know what they are doing but I don't criticize them.

Q26: LA. In 25 yrs, where would you see oil production? What year do you see the peak?

This is very flattering, but I don't think question nor my answer will do much for my reputation. We don't know year, and the reason Warren picked up on my answer last weekend so strongly is that it is a radically different world where oil production is down 25 yrs from now, with radical adaptations necessary. Hubbert pretty accurately predicted peak. If it hasn't peaked, it soon will, and it will go down. At $120 / barrel, there are obvious strains in the production system.

Q27: LA. I went to private school where you donated science building. For many minorities, there are low graduation rates. What can government do to help? What can we do?

Very serious problem, anguish causing. CA had once the best public education system in USA. It is a very sad thing. The private system is very competitive. Warren has suggested that if no one was allowed to use private schools, citizens would make sure public system was good. Not sure Warren is right on this. Personally I am better at lifting top up than the bottom up. Why shouldn't I stick to game where I'm better suited? If you want to know how to raise top higher, I think I could help you a lot. If you want to raise lowest, I don't know how to do it.

Q28: Boston. Swiss Re transaction. Could you add some color? Long tail insurance?

It will be long tail. It won't be a bonanza. It ought to be reasonable, we like Swiss Re.

Q29: I'm curious, you are student of history. Does today remind you of any time in past, and why?

I punched premium channel in hotel in Tokyo, and out came exercise in pornography. I would argue Soddom and Gomorah is still around. I think Athens of Pericles is still around today. Our bullies are similar to past eras.

Q30: LA. How will meltdown affect Brazil and China. Will you invest there?

We have [economic] system which is interdependent. [A slowdown here] would have repercussions elsewhere. Will Brazil have troubles? No. Brazil is favorably located now. If I could get equivalent business prospects I would prefer USA. That iron mine that Brazil owns, you only need small knowledge to know that it is one of best in world. Agriculture – they are in a very strong position. We are not invested there at the moment. We have a small position in Brazilian Real.

Q31: CA. Health insurance?

The health insurance industry gets bad press it doesn't deserve. When medical care fails, they say that characterizes it. But they also prevent a lot of interventions too. But Hollywood assumes everything is bad about health care. I don't know what will happen. I think single payer could happen, and might not be too far in future. In fact it probably would happen, maybe 50% likely if Democrats win both houses.

Q32: LA. Absurd leverage in banking system. Large mess. Only response is that government has taken toxic portion and thrown it onto their books.

Not at all clear what will happen. If government intelligently spent $500bil dollars, it wouldn't be that bad. But now they do it unintelligently. I am not shocked that we all have to pony up $500b. We did it in savings and loan crisis, $150bil.

Q33: CA. Hyperinflation. Real estate and gold?

I don't have a good opinion on that subject. We have not been good at taking advantage of inflation. Net inflation at Costco was zero for ten years. Even Costco is starting to feel it. Not desirable. The previous situation was too good to continue. If it can't go on forever, it will eventually stop.

Q34: Germany. Many managers typically would be carried away by all the success. Is it genes or is it still to come?

Very flattering. Success tends to make most people pretty pompous. Someone once suggested in a public setting, 'Don't you think financial success is making Munger pompous?' An old friend of mine stood up and responded, "No, that is unfair criticism, I knew him when he was young and poor and he was still pompous."

Q35: Beverly Hills. Berkshire has history of acquiring operating companies. Wesco has been less active. Will you get more active?

Berkshire will be better at stuff than we are. We have not bought our last operating business at Wesco, so, stay tuned.

Q36: Auz. Wells Fargo, how did you get comfortable with their derivative positions?

They will not be exempt, but we believe they will have less than their share of troubles. I think they have a better culture.

Q37: CA. Common stock returns going forward? Should we go overseas? So much less transparency… hard to satisfy conservativeness.

P&G and Coca-Cola is in developing world. We have exposure there. For a great many investors, the best way to do it may be to own Coca-cola. We've thought about these things. We do not lack participation in the rest of the world. And we may get more.

Q38: LA. If you were younger, what asset management type would you join?

If doing it again, I'd find someone I really liked being associated with, and I'd serve little time in a pompous place doing a lousy job. But most of jobs are in lousy places. My Harvard law professor used to say – 'tell me what your problem is and I'll try to make it more difficult.'

Q39: Germany. Insurance accounting: Cost or market, or lower of cost or market? Was this good move for accountants of insurance coompanies 30 yrs ago?

Very tough question. Generally speaking, lower of cost or market (standard for inventories) – but various financial types wanted to get away from this. There is a risk of self fulfilling prophecies, like an autocatalytic reaction in chemistry. Conservative insurance companies marking common stocks to market is not a bad thing. If we had lower of cost or market in derivative books, they would have worked better. All intelligent people find it so. You are to be complimented for being bothered by it.

Q40: CA. Average investor should invest in index funds.

All intelligent investing is value investing. Calling something a value fund doesn't absolve it. You can call yourself a ballet dancer if you dance like me, but it is not a good thing. I wouldn't recommend people broadly invest with any value fund. I would avoid funds that have 100% turnover per year. It is a ridiculous way for an ordinary index fund to behave. It is imperfect, but best outcome for most know-nothings, in order to avoid being misled by fools and liars.

Q41: USD Currency. How many months would it take for exporters benefit?

I don't think USD weakness will fix trade deficit.

Q42: MN. Insurance and healthcare: How can we go about having best medical care at lowest cost? Also, could we get your book in schools?

A lot of people think existing system is all bad. People tire of dealing with dumb insurance companies. There may be some reality. Changes have been hard. If you look at hospital I am Chairman, we used to knife the kidney. Now we use lithoscripsy, with a 100% cure rate. I would argue our specialist doctor was one of greatest doctors Los Angeles ever had. I think there are good things in system as well as bad. It isn't clear how it will work out.

I do have one clear opinion. There is way too much intervention when dying. It is a national disgrace. They are way better at handling it in Europe than US. You can take pride in Europe at dealing realistically. We blow more money on stupid cases near death where no one is helped by the intensity of the interventions.

I have trouble getting my family to read my book.

Q43: US. Are we losing our competitive edge? Education failing, infrastructure falling down. Should corporations move abroad?

Some movement offshore for tax reasons is happening, and it hasn't ruined the country. It is the natural response to incentives. Berkshire could save a lot of money, but we just haven't done it. We have some companies in lower tax zones. But we pay enormous income taxes. There is a huge taxation claim between you and your money. We pay taxes that are astronomical. I hope they become more astronomical. There is some development to shift around to save taxes.

Should be concerned if it gets big, but it isn't really big at the moment. Pharma co's make drugs in Puerto rico, etc etc.

Q44: CA. Insurance linked securities. Can you discuss insurance linked securities? Are they a threat to quality of underwriting?

Of course. Like slicing and dicing insurance risk – it wouldn't improve matters.

Q45: What has changed since you first started investing?

I owe a great deal to Mr Buffett. It took a while to convince me. Warren and I together got very good at reinsurance transactions and portfolio transfers. We've learned together at it. Berkshire would have been a mess if it had ever stopped learning. Only reason we've been able to keep a shred of decency in our record is that we have been hell bent to keep learning.

Q46: There is no shortage of well regarded financial experts about debt – equal to great depression?

Pushing credit hard makes me nervous. I know how countries got ahead, and it wasn't by pushing consumer credit to its extreme. I am not wild about the developments. But a great system will handle a fair amount of abuse. Some of the [credit] expansion was good. Do I like multiple credit cards being juggled? Do I look like kind of person who thinks that is good idea? It turns someone into a serf. You get customers just screwed together enough to pay you but who don't realize cost of 36% interest... I don't admire the guys who are good at acquiring the serfs.

Q47: Sweden. Why do you have so few followers?

From my point of view, we have too many damn followers. I don't think we have shortage of followers. Of course great bulk of people do things differently because people running the systems have incentives to do it differently. For a security to be mispriced, someone else must be a damn fool. It may be bad for world, but not bad for Berkshire.

Q48: Germany. What do you think of energy drink business and how to can you avoid a bad marriage?

I abuse caffeine, and I like soft drinks. I've never even tried an energy drink. There seems to be a growing market for it. Marriage: Ben Franklin gave best advice, keep your eyes wide open before marriage and half shut thereafter. [applause]

Q49: TX. You said at the Berkshire meeting that if there is inflation, Iscar would make a lot more money.

Iscar is selling to very professional customers who know a lot. They can just raise prices like some consumer goods. If I gave impression they would make a lot of money, I didn't make myself clear. Iscar is so good at delivering good products, it is hard for me to imagine them not selling more to customers who are making more money. They don't have automatic pricing power. But a price increase is a price increase.

Q50: In 2005 both Berkshire and Bill Gates bought NZD. What do you think now?

I don't have an opinion about NZ. Some things Warren does I just ignore. [laughter, pause] If I had something intelligent to say, I would say it.

Q51: Why the reluctance to own real estate?

Total real estate holdings are close to zero in the total enterprise. The Chairman has quirks. Old real estate purchases, at times we did borrow out equity in old real estate in order to reinvest it in Coca-cola and other things. We have huge surplus of cash now. But believe me we know all the tricks. We may behave differently in future.

Q52: Where would you sell an operating business?

We tend not to sell operating businesses. That is a lifestyle choice. We have bought well. We have a few which would be better if we sold them. But net we do better if we don't do gin rummy management, churning our portfolio. We want reputation as not being churners and flippers. Competitive advantage is being not a churner. Warren says, 'you should take high road since so much less crowded.'

Q: Amex Visa Mastercard. Can you compare these companies?

American Express has better customers, and we like that position, a lot.

Good friends – you are through another of our idiosyncratic meetings.

[standing applause]
Shai Dardashti