

WESCO ANNUAL MEETING MAY 6, 2009

(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. –PB)

CM: Welcome to the 2009 annual meeting of Wesco Financial. Directors please stand. If anyone present hasn't registered, please do so. This blue book is list of shareholders entitled to vote at the meeting and has been available for ten days at our offices. Our corporate secretary has a record that every shareholder was notified of the meeting. 7,119,807 shares outstanding. 97.5% proxied. Elections of directors. Motion to close. Motion is carried.

CM: We'll have a long question and answer session upon adjournment. Meeting is adjourned.

CM: We'll copy Berkshire this year in part. I'll ask a bunch of questions of myself and then I'll answer them. After you get tired of that we'll go to the audience.

Q1: CM: How serious is the present economic mess?

CM: Deadly serious, it is the worst mess since the Great Depression. The Great Depression caused Adolf Hitler to rise in a formerly civilized nation. You can't predict what happens when people get dissatisfied enough. We have a deadly serious problem, and it could lead to terrible problems.

Q2: CM: What caused the economic mess?

CM: It was a lollapalooza event – a confluence of causes, that is how complex systems work. All of the following helped:

- 1) Abusive practices in consumer credit. People who couldn't handle credit were deliberately seduced. People who did it justified it by saying competitors would do it if they didn't. That is not proper. Sometimes you should let others proceed and not copy them. It is abusive folly. I talked to a plastic surgeon last night who used to let people write checks against a line of credit on their house. Now his clients are finding those credit lines harder to get. A multiple credit card borrower is dangerous. He can look great right up until he goes bankrupt. Banks have abused their prerogatives and have stuck it in too hard. I have a fundamental theory that in some way the world is just, and if you do something immoral or stupid there will likely be a whirlwind someday where you get clobbered.
- 2) Mortgage brokers – often these are scum of the earth rejoicing in “rooking” the borrowers with flim-flam tricks, which often can happen with minorities in poor neighborhoods. On first and second mortgages – they built a huge balloon bound to create horrible mess, and the mess finally happened.
- 3) Wall Street went crazy. Any way of earning money short of armed robbery was ok. The last mortgage broker Merrill Lynch bought were a bunch of sleazy crooks even on the face of it. When people behave like that you get a tremendous mess.
- 4) Regulatory apparatus that allowed all this was also foolish. The regulators and legislators were in two categories. Legislators wanted poor people to have houses, but this is a bad idea since you want credit practices to be sound just like you want your engineering practices to be sound. People making money just rationalized what they did. Accounting systems spit it out as okay, even though in substance it wasn't right. It was ghastly and there was huge envy in the thing. If Joe made \$3m, I'm better than Joe and so I deserve \$3.5m.

- 5) Credit system was the repo system, one of best ways to grant unlimited credit ever invented. Then banks offered access to the repo system to hedge funds. It went to enormous excess. Some of it was due to democratic legislators hoping to help the poor, and some also was due to Republicans who overdosed on Ayn Rand. For Republicans, it was like legalizing armed robbery for anyone under 25. It was like letting the financial class prey on the poor. If it was unreasonable for the buyer, you got 9% for selling it. Ethos was of the “buyer beware”. The vendors in America should care about selling good stuff to the customer.
- 6) Then the other issue was in terms of dizzy leverage on stock indices and CDS – where anyone could bet someone would go broke, even if they had no economic interest in the outcome. Then you could help that person along to ruin. We prohibited this in life insurance. I can’t buy insurance if I don’t have economic interest in the person (spouse, etc). These wise rules were thrown out in CDS markets. Then the people who did the accounting used mark to model. Both sides would allow profits. Anyone with engineering cast of mind will feel like throwing up into the aisle. Well go ahead, it will be a memorable moment if you do [laughter].
- 7) Accounting was phony because all the customers wanted it phony. Commissions were awesomely large, and it influenced people. And Greenspan was saying it was all for the best in the best of all possible worlds. To allow predatory class of people to do whatever they want to others is not like free enterprise at restaurants. The whole thing could go... back in September it was as if every bank deposit became unavailable – it looked like whole system would come crashing down last fall, and it accelerated downwards.
- 8) Luckily the government was awake, and was sensible enough to try to fix the situation. To fix it, we have to save the banks. That doesn’t bother me, if you want perfections you don’t live in this world. We had to save people who didn’t deserve it, but it was important. It was smart government, taking over Fannie and Freddie and reducing mortgage costs. It was a correct decision.
- 9) Bank situation is much more complicated issue. The traditional way is you don’t hear anything about the regulatory process, then you hear about the results after. There was no bake off – and that is a good system. The announced contest [*ed: the stress test*] makes me dubious, but it is better than nothing. Some banks should get more financing. Averaged out I would give Treasury Dept good marks, though I don’t look forward to what they likely will do to WFC, since we own a lot. Their credit costs them so much less. Treasury are using a one size fits all. I would give WFC a flaming pass. But if it is a little unjust, maybe their duty is to take their medicine. When we have this much trouble, everyone shouldn’t be screaming for the last iota. I think everything is working out fairly well. Much of what has been done has been done beautifully.

Q3: CM: What will be long term consequences of crisis for Wesco?

CM: Almost nothing. We are rich and well financed. By and large our businesses are gaining market share though the economic mess. That is the right way to run a corporation.

Q4: CM: What government response has been inappropriate?

CM: Ethanol is one of stupidest ideas invented by rational people. They don’t count the fossil water or topsoil, and you don’t get much more energy from it, and losing the safety net of cheap food so that food gets high priced is a monstrously stupid idea. People don’t want to admit how stupid it is, but that inanity might pass. The other inanity is cap and trade. China spews out the most carbons, and they won’t stop. Cap and trade would be a huge, massive interventionist tax. We don’t need it. If everything is in one country, maybe you could cap and trade. But it is not.

What do we care about? Not using up the hydrocarbons of the world too fast. We do not have good substitute for fertilizers. Preserving those for later times is a good idea. So if we have a good idea why do we need a bad idea like cap and trade worldwide with a bunch of people who won't do it?

How do we solve it? We have to use the energy of the sun. I don't think we want everyone to have nuclear plants. So we should harness the energy of the sun, and we should cover the nation with an efficient power grid. Then we shift cars to battery propulsion. We know how to create the grid, we understand that already. Getting solar down 50% in price will probably happen. Freeman Dyson is smart man, and he thinks energy cost is 5% more or less for whole world. Listen more to Dyson, less to Al Gore. One knows how to think, one doesn't. Chinese create the most coal plants, and they are choking to death in their cities. Chinese are logically located to gain enormously and markedly in manufacturing solar. If we want them to get rid of brown coal, then it would be wonderful if they can gallop to leadership in harnessing the energy of the sun. My mind drifts in the direction of photovoltaic, rather than to solar thermal. If they last a long time - good, and prices are likely to come down.

And we need the stimulus of a big energy grid. We have intelligent things to do with the money. Clean power -- that is what we should do. We need the stimulus. The cost saving doesn't matter, but still think it will come. I think we can adapt to a world with more electricity. Israel is interesting place. Half of water used in Israel is from the sea, they take salt from seawater. When mankind does that on huge scale... think of the benefits. But a huge desert with endless power from the sea, maybe everyone there in Middle East can get along better when they collaborate on a large engineering solution. Wang Chuanfu will you stand [*ed: CEO of BYD*]? He is on his way. I am pleased that the world has the capacity I foresee. I think building a big grid is a good idea. I'm not into systems on everyone's garage. I'd rather utilities worked out the scale issues, so that whatever you need just comes. Utilities need time shifting of power, so better battery technology is important. We need it in a car since lithium is a light element. I'm told that lithium is very efficient in amount of charging and discharging, and other elements are all cheap. The sea contains lithium - lithium mines are old sea beds. To me these are ABC, every bright high school student should be nodding his head. Though I'm not sure I'm having same effect. [laughter]

If one enables Arabs and Israelis to live together, cheap power would be very good. It is exactly what should happen, and it will happen. If seas rise a little bit, we can handle it. In Holland, much of the country lives below sea level. We have Nervous Nellies, and they enjoy being the town the crier of misery. Correct cry is "plenty", not misery. That lithium powered car in Omaha, the amount of torque in an electric car is something -- the tires would squeal if you pressed to hard.

You need economic action. What is big risk using unemployed people to build big electricity grid? And we need to change our laws so that festering blobs of local policy making can be overridden. You may not like Chinese, but when they need to do something THEY DO IT. India has too much due process, they copied England, and it was not a good idea. Some places have sacred cows, can't fix the traffic due to the cows downtown. We need some amendments to our religious ideas. That said, in big scale of things, there is a lot to be cheerful about.

Q5: CM How fast will improvements come?

CM: We have some sober facts. Japan had boom, and they put full resources of government into fixing it. But they got stasis, not growth. They spent an immense amount of money, and they got only stasis. That would be terrible here, and we have way more trouble. I would predict that it

would very awkward to have no GDP growth per capita in USA. No economist in world predicted it for Japan 10 yrs ago. I think Japan is an interesting and threatening example. I don't know if we will do better. Japan stimulus was worthless in some ways, every pothole got filled 3 times. They didn't do highly useful things. If we create a big electric grid I think that is best way to go. I have never taken a course in economics, and here I am speaking about Japan. I'm not apologizing. I'm trying to do it my own way.

Q6: CM: Current stock prices?

CM: Warren said this weekend that the best year he ever had was a recession when economy going down and stocks were going straight up. If you wait, you'll miss it. I'm willing to buy common stocks at current prices with long term money. Coca-Cola and WFC I would buy today. I wouldn't expect miracles – no doublings. Anyone who promises miracles should be shown the door. If it promises high rates of return and has high commissions don't read it. You shouldn't wait for agony to be over before buying common stocks. I for myself am pretty well invested. If there is a big bottom out there, I'm going to miss it. All these things are pretty obvious. I think we are lucky in that we have a stimulus. There is a way of doing this [*ed: electrical grid investment*]. I have been quoted figures of 7-8% of power losses in big systems over long distances. I don't think we ought to care we are leaving it. Iowa – 20% of electricity is from wind. All kinds of things can be done.

Q7: CM: Big issue – what kind of re-regulation should come to financial industry?

CM: I don't know why something that can't fail should be allowed to be anything other than a pretty boring business. That is what it used to be. Partners didn't make a ton of money, and they were quite conservative. They were old fashioned, they had seen the 1930s. We don't need a system where every bright young man needs \$8bil to play with financed daily in the repo market. I think we should take away all the activities that aren't boring. They should do moderate things, stock-broking, etc. That doesn't take a huge amount of capital and does not present huge dangers. If someone wants to go crazy, I would close the system for him too. Massive leverage is bad. We don't need options exchanges which have made margin rules uncontrollable. We don't need credit default swaps. If someone wants to be gamey, he can operate as a hedge fund, and take in only sophisticated investors. But I would not reward the ballooning of the operations. A man does not deserve a lot of pay because he balloons a balance sheet at a tiny spread. An idiot can do it, and many do. But you can imagine how many would scream in London and NY. But if I were a despot, that is what I would do. I would run like Singapore. I wouldn't run a world with 10-15% of engineers trying to make money by outsmarting other people. What purpose does this serve? The world worked fine in the 1950s. Obama intends to reduce the power of NYC, and I admire him for saying it. I don't think he'll have guts to reduce it as much as I would. We'll see. Do you really need to announce to friends at country club that daughter marrying a hedge fund professional, and this is the highest rung? It is not pretty to take money away from people because you are a better card player than they are, and can lure them into the game and take a croupier fee. We need to protect the body politic, and it would be constrictive at start. [Wolfenhouer] is an economist I like a lot, he thinks like me.

Q8: CM: Berkshire vs Wesco?

CM: Berkshire is better. Wesco sells too high because you people are cultists. If I were buying today, I'd buy Berkshire. That is the place the entrepreneurs want to join. Berkshire is where people want to be. It is a historical accident that Wesco is independent.

[Munger now invites several attending journalists to ask questions.]

Q9: Mattias Schwartz from Harpers Magazine. You talked about what you would do if you were President. What would you do if you were Sec of Treasury?

CM: I think they have been doing pretty well. I agree with Hank Paulson and his work on the toxic asset scheme. That said, it was not nearly strong enough. I think he deserves credit for changing his opinion/adapting as facts changed. Geithner and Summers are very good. They are terribly constrained by the politics of their locale. You know what should be done, but can't get it done under the constraints of politics. I never had interest in Government. I wouldn't want to be prominent with someone pounding on my head with two hands tied behind my back.

Q10: Buck Hazel, Motley Fool. What would you do...?

CM: I would reduce incentives to go to Wall Street. I would make Wall Street purposely less efficient. I would invest in the electric grid, and I would change laws so little hamlets couldn't reject rational action. I would go hell for leather for electric grid and electric cars.

Q10: Car incentives?

CM: Toyota has a problem in the world I foresee. Detroit will have a hell of a problem when Toyota has a problem. To solve Detroit, I would throw out all the contracts, and let one company take only what they want [from the factories and models and dealers], and abandon the rest. That would have a 40% chance of working. The same thing happened with British Leland, and after billions of pounds, it didn't work. These people haven't covered themselves with glory. There is nothing in this crowd that makes me feel the way I feel about some of other people that are bringing the new world in a rational way. I remember when Rochester had two of the best companies in world, Xerox and Kodak. Is this end of world now, now that someone else is winning? They have great medical centers and nice cheap houses. It is unthinkable that any geographic area shouldn't lose what it formerly enjoyed. It is natural that some places go down while others rise in capitalism. If someone my age can cheerfully die, some geographic area can see its main industry shrink.

Q11: Cathy Kristoff. In the last year individual investors, have become disillusioned, believing now that Wall Street is corrupt. They worry that they shouldn't trust corporate stocks. Hundreds of shareholders have said I've sold out of stocks, citing Ponzi schemes, and exorbitant pay.

CM: First, everyone should maximize their social security benefit. What to do if you have investable sums? I think to expect a lot is irrational. In other words, you are likely to be happier if you are aiming low. The right way to get felicity is by aiming low. Not many can get felicity by aiming high. Having realistic expectations is important. You should defer consumption, and do some investing. Now stockbrokers in this room are smart, but they aren't normal. In general stock brokers are a disaster waiting to happen.

Q12: Are shareholders being robbed, or is it a misperception?

CM: It is in nature of stockmarkets that they go down. So people suffer then. Conservative investing and steady saving without expecting miracles is the way to go. Some people in this room can figure out how to average twice the rate of return. I can't teach everyone else to do it. It is pretty difficult.

Q13: Charlie, [Gurustocks.com]. Lots of investors lost 30% last year. What should we do to avoid those losses in future, or should we live with it?

CM: I don't have a system to avoid downmarkets. If anyone told me he could skip the downmarkets and catch the upmarkets, I'd throw him out. If you aren't suffering a little right now, you haven't lived your life right.

Q14: Paul Larsen, Morningstar. Investment books you would recommend? We didn't get any books on Saturday.

CM: Outliers, by Malcolm Gladwell. It is a terrific book, a bestseller. There is a reason why it is a best seller. The guy has a way of picking out examples that guide reason well. I tend not to read self-help investment books. Like soap operas, I know the plots.

Q15: Kim Voss, Berkshire shareholder. Inflation is coming. How to hedge?

CM: I remember 2c stamps, 5c hamburgers, and the minimum wage of 30c / hr. In 80 yrs since those prices, there has been lots of inflation. Did it ruin investment opportunities? No. It isn't easy, there are always huge risks, and of course there will be inflation. It was a miracle between 1860 and 1910 there was no inflation. For a long time the country got ahead without inflation. That world is not coming back.

Q16: Melbourne, AU. Is Berkshire doing anything to protect against inflation?

CM: Berkshire is aware that inflation is the long term way of the world. We try to do the best we can. We bought utility bonds to yield 9 or 10%. What about inflation, you might ask? Well, government bonds are yielding 3%, so 9% isn't bad. We don't have one size fits all.

Q17: NYC. You have spoken out against Wall Street and executive compensation. How do you justify your investment in Goldman Sachs?

CM: We thought their merits outweighed their defects. We don't expect perfection.

Q18: Vinesh, CA. What about the commercial real estate disruption and GE Capital?

CM: They will lose some money.

Q19: Palo Alto, CA. Coca-Cola company. Neville Isdell and Mukthar Kent appear successful right now. Why?

CM: I think current CEO will likely to be an exceptionally gifted CEO. Coke has a strong position in the world, and when run by a strong CEO the results will be good.

Q20: How will WFC business model look different going forward?

CM: I think they are pretty well located. I think their culture is well-adapted. I think WFC has bright prospects. I wouldn't be surprised if we had more regulation. I think raising people's interest rates on credit cards – well, that infuriates people. Banks will have to behave better, and should not be totally unregulated.

Q21: Berkshire. Executive leadership – can you teach great qualities in leaders, or is it innate?

CM: Some people are more teachable than others, and the same is true of dogs. I wish you lots of luck if trying to win the prize with an unteachable dog, or human. Capitalism filters out people who don't do well, and replaces them. Think of golf, it is a tough meritocracy. I like it that way, think of the talent we get to watch! I first look for trust, regardless of talent. First you need trust and then good judgment. Warren talks about IQ130, that they have all they need. But if people have enough sense to operate in field of competency, you can do very well. It is the overreaching, the crazy overconfidence that does in so many people. And salesmen are very sophisticated. I saw a REIT prospectus recently -- I don't see how anyone could read the prospectus and buy it. But there was a big commission for the salesman. Throw it in wastebasket. You don't have to smart to do this.

Q22. CA. Renewable energy lessons, thank you. India and china – how is the long term investment climate in India vs China?

CM: I think Wang Chuanfu will do amazingly well in China. He has the right discipline and personal attributes. I wouldn't personally choose to spend my life competing with Wang Chuanfu -- there must be easier people to compete with. I think he wants to make a contribution to civilization. I wish I could live longer so I could watch, as he is almost sure to succeed. I may be wrong, we will see. I think he will succeed because he deserves to succeed.

Q23: I always have tough time balancing short term and long term decisions. Right now I will take any customer and investor – because I am starting a new business.

CM: I don't try to back start-up businesses. There were already huge achievements at BYD by time I decided to back them. I don't do startups because I have found a way that is easier for me.

Q24: Why is growth so important. Everyone is obsessed, are there any limits?

CM: There are limits to growth, you can't have infinite growth of finite goods.

Q25: St. Louis, railroad investments. Pricing power in railroads may be at risk, and coal volumes may be at risk. What would you change your view on railroads?

CM: If we stopped using coal it would be bad for railroads. I think there will be a lot of freight still. They now have a competitive advantage over trucks. But it will be more foolproof if we didn't rush into an electric grid.

Q26: San Francisco. National electric grid planner – how long would you spend on engineering?

CM: We understand the technology. I don't have a good feeling for timetables. The Chinese don't fool around, but in other places it takes forever. We would need a streamlining process to do it. We had streamlining processes on natural gas pipelines, and look at how well they work. I have no feeling that it isn't perfectly [ed: within reach].

Q27: Tilson. Newspapers portrayed you as negative this weekend, but I heard different meeting.

CM: I think our utility operation is as good as any in the country. I would imagine that if a better grid comes Berkshire will be heavily engaged in it. It would be a waste to not use the managers of our energy subsidiary. They try to deliver what they would want if they were the regulator.

We almost bought Constellation Energy -- that would have been immense. It blew up, but with substantial profit to Berkshire.

Q28: Florida. Do you have any recent fresh ideas on human misjudgment or cognitive errors?

CM: Misjudgment is like sunshine, it will always be part of the world. Many of the misjudgments will be massive. We have misjudgment too at Berkshire, but we have less than others. If you can stay high in the pack, you'll do well. Best chapter in *Outliers* was about people with an IQ of 200 who failed utterly in life. If you can't learn from that chapter, I don't want to bet on you. I don't know Gladwell but I was flabbergasted – it was a marvelous book. It gives you an insight into what you might call fate. It is good to know how fate will rule your odds.

Q29: CA. Oil production?

CM: Ultimately we will produce oil at lower levels. We are near peak oil production now. The interesting one is natural gas. We have found a lot of good natural gas, and it has surprised everyone.

Q29a: Any thoughts on upper threshold?

CM: World will adapt to whatever the price of oil is, because it will have to. I don't think it is the end of the world if prices go up.

Q30: A few years ago I met Phil Fischer, and he said the right answer wasn't right, that is was better to ask the right questions. What questions should we be asking?

CM: I don't think we know how this will all play out. What are the odds of a hostile weapon being used in next 30 years? Pretty high, I'd wager. I think you have to think over all the possibilities. I don't think it is a big deal. I was in Japan a year ago. It is civilized place with static GDP, and it is not a disaster. Mono-ethnic populations can get along better than diverse ones.

Q31: Municipal bonds?

CM: I don't think I want Berkshire to insure an endless amount of municipal bonds. They have good credit rating, but I don't think they always will. I think politicians, if they can throw it to bond insurer, they will.

Q32: Geico- Advertising spend of \$800m, on the weekend you suggested this represented approximately 100m for maintenance capex, and 700m for growth capex – is this right?

CM: That is correct.

Q32a: Snowball, what did you think?

CM: *Snowball* is an interesting book covering a single life in such detail. That said, some facts will be incorrect. And she made a lot of money for herself.

Q33: CA. Reverse mortgages?

CM: They make sense in some ways, but they tend to have big commissions. With old people with problems, so I am leery of it. I don't say they shouldn't exist, but I am leery of anything with a commission and sold to the old.

Q34: Las Vegas. Berkshire has evolved into institution of learning. On Saturday you began to talk about how Berkshire would have effects on civilization after you both are gone. Could you elaborate? Have you or Warren documented your decision-making process?

CM: Berkshire model is so different from standard model that it has had only modest effect/copycats. There was a surgeon once who invented a very difficult surgery. Many saw it and said 'I won't do it – it's too hard'. Many think we are nuts. Ben Franklin's last recommendation to the Constitutional Convention was that government workers not be made a permanent professional class. I love that idea. There is a wise saying, "There should be no man fit to hold public office who isn't perfectly willing to leave public office at any time." We don't pay directors anything, they all own lots of stock. They are wise. No one at Berkshire needs his director's fee. Normal corporations pay \$250k per year, and that is a lot of money to a college professor. But corporations of America would be better run if directors were unpaid. [clapping] You clap, but that idea is not spreading like wildfire. And I think Franklin was right. I think unpaid University Trustees are a good system. I think Walmart may be more important than Harvard. These are very important places. Who has the power is very important. If you stop to think about it, it is interesting to be a director, to interface with good people to solve good problems? Why should they want a lot of pay? We self-select for people who want a lot of pay, and I'm not sure that is best way to do it. If you like it, you carry the torch.

Q35: Is investing in a paper company that supplies central banks a good idea?

CM: Because you have identified the problem, doesn't mean that is right for you. If you bought real estate for inflation, it went down. The nature of game is that it is hard. My son knew a man with a nice house. He had USD1m of securities. He was living in his house free and clear. But he felt he didn't have enough. He sold puts on tech stocks in 2000. He lost his house and assets, and now works in a restaurant. Stretching to reach sacred needs is difficult. Needs should not be sacred. People who can handle credit and have discipline, they are the people I like. Sometimes salespeople love a second pair of shoes, and soon they start cheating someone to have a better life.

Q36: De-inflationary environment?

CM: I don't think every asset class and every region is the same. Now with interest rates at 4.5%, if I had good credit in Omaha I would buy a house in Omaha. But in other places there is more horror still to come. You have to make these judgments all the time. We have submarkets everywhere and they are quite different. Pasadena houses are high priced. But it is run well, there are talented politicians. But I'd probably buy now in Pasadena. Though I might buy at foreclosure...

Q37: Have you read man who loved china, by Ogilvy Obviously you have great interest in China. Why did China cease to being a leader in the world?

CM: Because there was a dumb self-satisfied emperor followed by a self-selecting group of Confucian bureaucrats. It got to be like French literature at Yale, it's nutty. But now I think they get it.

Q38: It is also a huge population base with a huge pool of latent talent. Do you find something unique in China?

CM: I like Confucianism, and it pays attention to elderly males, and the love of learning, and their family mindedness. Wang Chuanfu – where will he get \$300k to start his company? Well, he had a cousin. The cousin had an ethos – and out comes the \$300k. I like Confucianism, I like work ethic, I like that rising leaders are engineers – that is my kind of communist. It is a great nuclear power. We'd be crazy not to get along with China, and they would be crazy not to be friendly to us. I think culture and genetics work together. There is a theory that the Chinese got talented because growing rice takes high IQs. That is not politically correct by the way. Somebody said rice growing regions smarter. I don't know if true.

Q39: David Winters. Is AIG still mispricing risk?

CM: These are sad days at AIG. They have lost some of their position. It does not help to be headlines, when you are selling insurance and people need to trust the insurance. AIG has been very unlucky. They have had difficult hand to play. That could happen to Berkshire. It happened to China – it is easy to fall backwards. It is hard to go forward. It is particularly hard when your children are raised in affluence and the Imperial Guard at headquarters gets to thinking they are the cats meow. We don't want to deny our children anything. We would like it more if children were more disciplined and ambitious. If you take every leading civilization, they have all passed it on to someone else. Where is Egypt or Athens or London? It is nature of things that we do baton passing. It is state of nature that baton gets passed, to someone who tries harder and cares more.

Q40: Student in Amsterdam. Having CAPM arguments with professors.

CM: Future of finance? By and large I don't think too much of finance professors. It is a field with witchcraft. I think a lot of physics and engineering professors. They try to teach it like physics, but it doesn't yield to that. I never went to university with finance professors. Finance professors all believe in diversification, while we try to beat the average. If you buy a dob of everything, that is different than buying something you know something about. That is a different fountain than I want to drink in.

Q41: How do you get a feeling for managers trustworthiness?

CM: There isn't a single formula. You need to know a lot about business and human nature and the numbers. How would you read bone tumor slides? Nobody is any good who hasn't been doing it for years. It is unreasonable to expect that there is a magic system that will do it for you.

Q42: Capetown SA. You point to crazy fees and commissions, what about expensive lawyers?

CM: Cost is too high and education is imperfect. If you go to law school, it is a good place to find a mate. Big firms have gotten too prosperous and there is too much paperwork, and not enough good sense. If I were running a law firm, I would cull one client a year on moral grounds. My partners refused, they were afraid it would be there first client. One of my early business successes was firing most of my customers. We were making transformers, and purchasing agents wouldn't let us make any money. We shrank the business and we returned to a nice profit. There are some customers you don't want. Peter Kauffman is here, he tries to get his suppliers to make money. That is win win. I think a huge mistake to try to rip off suppliers. Whether they are lawyers or others, it is okay for them to make money.

Q43: Newspaper companies, potential? CA taxfree bond market?

CM: The ordinary daily newspaper will perish. Maybe they will find a model a lot like public broadcasting, where they get a few people to pay a good price. But microeconomics of newspapers not a great place to invest money. CA bonds? I believe the rating is the worst in the country, slightly worse than Mississippi's. Gerrymandered legislature with certified nuts on right and left hate each other. It is a very serious problem and big mess. You can't just assume good will win. Sometimes evil wins, and that may happen in legislature for some time. Deliver to others the kind of service you would want yourself. It is such a simple idea.

Q44: US trade deficit. Unsustainability? Decline in USD not enough?

CM: Strange things happen that after 20 yrs of labor governments in UK that Thatcher would come along and change things around. Warren is more pessimistic than I am. China is prospering enormously taking our paper, and they are gaining market position by doing so. If it doesn't show up in equations of economists, they aren't using right equations. Deflation on securities is small price to pay for a civilization growing at 8%. I think China doing things amazingly well.

OK, We'll go to the director's meeting. [4:08pm – early!]