Wesco 2010 Meeting Notes, Part I

The meeting was called to order at 1:57, the nominees for director were elected, and the meeting was adjourned at 2:02.

Charlie then announced that he would follow the same format as last year, in which he'd "prattle" for a while before taking questions from the floor, except that this time he wouldn't ask himself questions. "I'm of course flabbergasted that we have so many people coming to Pasadena after Omaha"; obviously we "have some addicts out there." He will aim to cover matters not covered in Omaha.

Wesco's market cap has grown from $20 million to $2 billion under current management, a "failure" compared to Berkshire but pretty good compared to other things, especially to almost every other California savings and loan; virtually every other S&L "went blooey." Why? Because running a big firm living on a small spread is "very precarious if you're ambitious." If you pursue 10 to 12% growth, you'll take your institution into ruin. Your competition will make bad loans, and you'll either have to fire people and cut back or join the race to the bottom. It's like Greek tragedy. The same problem exists on Wall Street. Why is there no better system for preventing ruin due to deteriorating asset quality? Because wealth leads to power which leads to political influence and bad audit standards. "We were on the edge of something deadly serious."

Why can't we get the "peace process" right after the financial blowup the way we got it right with the Marshall Plan after World War II? Because "our elites failed us." Academia is still teaching failed financial ideas. Charlie has thought about why some high-IQ people make bad decisions while other make good ones. "If your way of making a living depends on X, it's hard to convince yourself of non-X" (which he attributes to Upton Sinclair). To be in the "sane minority," you have to practice right decision making just as you practice making the right swing in golf.

Other folly: Diversification ("diworseification")—it can avoid disaster, but it can't find success; beta—low beta won't cause success either.

Charlie pointed out Li Lu in the audience as someone who liked business school but didn't learn much there, except when Buffett gave a lecture. What we do at Berkshire is very difficult and therefore hard to teach. Business schools fail by teaching what is easy to teach but less useful. Going back to teaching business history as Harvard used to would be good; there's a lot to be learned from the rise and fall of GM, or the rise/fall/rise of railroads.

Charlie told the story of a friend who learned in business school to prosper by abusing his suppliers, driving up their working capital while driving down his own—it was simple algebra. On the exam, he gave the math the prof wanted but said it was asinine; in the real world he'd want his suppliers to prosper and be happy. That's how he behaved in the real world, and to say he prospered himself is a gross understatement.

A second anecdote about a friend: Guilford Glazer. Back from the war, he was admitted to Harvard Business School, but his father's machine shop was struggling, and he asked for a year's deferment to help out, which was granted. A year later, he asked for a second deferment. The Harvard guy asked, "How many employees did you have a year ago?" "Fifty." "And now?" "Nine hundred." "I don't think you need to come to our school. Why not just stay where you are, and come by later and endow the place."

Guilford's father gave him some advice relevant to recent events: only sell things that are good for the customer. He took the advice, and is now a billionaire.

Soccer is also relevant: In soccer, it's hard to win if the other team has a really good player. If you let players do what they want, they'll "work mayhem" on the other team's star, so you have referees running up and down the field to limit the mayhem. It's the same with other highly competitive people like investment bankers; you can't expect them to rein themselves in, so it's government's role to referee. "At its peak, something like the Lehman firm just before it went under was pathological," "like the worst boiler-room operators," far from Guilford's father's advice of selling people only things that are good for them. The people who did this mostly blame others for the bad results.

You need a referee; yet Fannie Mae and Freddie Mac had 200 people at OFHEO to supervise them, and "right under the nose" of OFHEO they went bust and used phoney accounting to juice the executives' bonuses. It's not enough to have a regulator refereeing; there's co-option of the regulator, or simple bureaucratic inertia (as with Madoff and the SEC), and there's no point giving more authority to such regulators. So you must curtail the activities that are permitted. Not everybody can be trusted to do what Goldman Sachs does, so it must be curtailed—and Goldman Sachs must share in the curtailment. It was done in the 1930s, and it worked.

We don't need the capital allocation of civilization to be mixed with a casino. We need to separate commodities and derivatives from investment banking. Underwriting, running margin accounts for hedge funds, advising, commissions, spreads—there's a lot of legitimate activity for investment banks to do; they don't need to do everything else. They could spin off the people and capital associated with other activities; there would be no big hardship involved.

Charlie digresses to comment that it's hard to sit up here in his 87^{th} year. It reminds him of a story about George Burns, late in life, receiving a singing telegram featuring four beautiful girls. "I'm sorry," he said, "but I'm afraid that one of you will have to come back tomorrow."

The referee needs to say, If you're going to be backstopped by government credit, there's a whole bunch of stuff you can't do; otherwise you get Lehman.

On Goldman Sachs: they have the "best morality and wisdom" among the investment banks, and Charlie doesn't like the government jumping on them, although he doesn't think they're doing it to be "asinine" on purpose but just stumbled into it.

Charlie knows a poker game where the best players like complicated games because they make it easier to beat the less skilled. It's the same in finance. Too many Caltech grads are going into finance. But in finance you clobber your own customer by being cleverer. For example, in Korea and Mexico, investment bankers sold ordinary businesses currency derivatives that made a little money usually, but eventually blew up. "When a guy is offering you free money, don't listen to the rest of the sentence" – Munger's Rule. It's a *mistake* to unethically rook your own customers; we won't miss it if it's curtailed.

A lot of this happened because accounting failed. For example, the derivatives book Berkshire acquired was said by the accountants to be worth something positive, but the reality turned out to be negative $400 million. We don't need mark-to-model accounting. There is too much math in accounting and not enough horse sense. For example, over- and under-reporting assets look equally bad mathematically, but *over*-reporting is much more dangerous. Lower-of-cost-or-market valuation sometime caused under-reporting, but letting people mark assets *up* causes real trouble. Charlie gave the example of the Morgan bank switching to allow trades to be marked up, because, they said, their traders would leave if they didn't. The explanation was honest, but the attitude was crazy.

You can look at major banks' balance sheets and see hundreds of billions of dollars of uncleared derivatives. It's like hydrogen and oxygen sitting by the roadside, waiting for a flame.

Is there any example to give us cheer? Yes, Lee Kwan Yew of Singapore. The average guy in his ethnic group married a pretty but less intelligent woman; Lee, however, noticed one who was slightly smarter than he was, and married her. His son is now prime minister. Lee drained the malarial swamps without worrying the effect on some little fish, fined people with stagnant water in their back yards, and got rid of malaria. To solve the drug problem, he looked around and found the solution in the US, of all places. He copied our military: urine tests at any time and mandatory rehab on failure. His policy was to check hard anything that might grow like cancer. If you tried to start a gang, your fifth or sixth recruit would turn out to be in the secret service. It led to prosperity. It was paternalistic, but we need more attention to his model. Singapore doesn't have 100% free speech; it's a crime to insult the ethnic Malay minority. Charlie thinks Lee's Singapore has had a positive influence on China. They saw the Cultural Revolution wasn't working and were impressed by what they saw in Singapore. Charlie wishes we were more like Singapore; "in many respects we're too damn permissive."

Permissive accounting led to Enron booking twenty years' projected future profits as an asset. We have to say no. Another accounting example is setting reserves for banks by actuarial techniques: When there's a boom on, there are no losses on loans, so you let your bad debt reserve go to zero just when it should be building up most—insane. You have "mathematical consistency," but it makes no sense. Yet another: When all your creditors are scared, with good reason, that you'll go broke, and are willing to sell your debt for forty cents on the dollar, you now get to book a huge profit, even if you have no cash to actually buy the debt in.

Some of our better leaders like Jamie Dimon are complaining about accounting standards—actually, only him. "My hat is off to him," but I'd take away his derivatives book if I could.

By the way, some investment banks actually bought casinos; "why run a casino in drag if you can run a real casino?" But a casino isn't a useful thing, although it's a great business, and running a bank as a casino avoids the fixed assets and restrictions on location that apply to real casinos.

Back to Wesco. What about the future? succession planning? You shouldn't think there is a future for an independent Wesco. You guys bid the stock up to "where it would violate all of Warren Buffett's principles as a capitalist" to buy you out with stock, and we don't like to force people out with cash, but it will happen eventually. Either the price will be right, or at some point it will be just a blip to Berkshire. "I don't know why you like this sort of thing. I was never this popular in my youth."

The Berkshire model is extreme decentralization combined with extreme centralization of excess cash. Both features are extremely peculiar but the benefits exceed the harm from each. Centralization of investment means they think about opportunity cost and look at opportunities broadly. For example, Charlie was once asked to look at company in China, liked it, but said no because he knew of something else he liked even better.

Why high-tech stuff like Iscar and BYD after all these years? When Charlie was young he poured money into a scientific-instrument company with a great oscillograph. Then some venture capitalist hired the top guy away, and the invention of magnetic tape came along and suddenly made the oscillograph obsolete. Damn near went broke and soured on high tech. So why now? Multiple models, and in this case the northern pike model. If you throw a few northern pike into a lake full of trout, soon you have big pike and few trout. Charlie recognized Walmart as a northern pike. Costco is too, plus they have Gil Glazer morality; he wouldn't want to compete with Costco. Bill Gates said more than once that the standard result for a dominant company when disruptive new technology comes along is to fail. So why invest in tech now? Because some models got so powerful that we thought we could make predictions.

If Charlie said he could lift 800 pounds you'd laugh, but if you saw him do it a few times you'd change your mind. The same thing happened with BYD. True, we bought in early at a much better price than currently through the wisdom of Li Lu. How can you know we got it right? You can't, but we're not going to do it often—there aren't that many BYD's. Charlie doesn't consider it venture capital; more like betting on a sure thing. Big lithium batteries for utilities to time-shift, electric cars, better cars for the masses in China—these are all Holy Grails. Why do these folks in China have the lead in pursuing them? A very unusual individual in a very unusual place.

Charlie recently drove a BYD car with a 200-mile battery around the parking lot at Dodger Stadium and was very impressed; it compared favorably to his Mercedes 550. Why is Mercedes forming a joint venture with BYD? It can only be because they've tested the battery.

Still, Charlie's not recommending any of you get into tech. The old ways were safer. But there's an exception to every rule, and "I think I'm right about BYD." And you're entitled to an explanation.

Questions and answers to follow in Part II.

Wesco 2010 Meeting Notes, Part II
Questions and Answers

[I've tried to identify the questioners with as much as I caught of their self-identifications.]

Q *(New York BRK shareholder)* How big a problem are distorted incentives of regulators vs. the regulated (pay differentials and regulators hoping for later jobs in industry)? In Singapore...
A Yes, it's a problem, and yes, I like Lee Kwan Yew's solution of raising regulators' pay (he also has draconian anti-corruption policies). But in the US, I think the problem with regulators is more "cognitive insufficiency" than corruption.

Q *(Whitney Tilson)* Cayne and Schwartz are up testifying to Congress that there's nothing they could have done to prevent the meltdown. Are the hearings a circus?
A There's not much point in the hearings. It's human nature to blame others. But Congress is "mad," and rubbing their noses in the mess they made isn't useless.

Q *(David Winters)* When will insurance pricing be better, and Berkshire able to grow float?
A Odds are float will not grow much, and may even decline. It's very hard to increase it. "Is that negative enough for you?"

Q *(Some media guy)* Questioner was in China and really blown away; he doesn't think the US is recovering and getting back to basics. Why aren't we getting back to basics, manufacturing and infrastructure?
A Of course we're seeing more troubles than we're used to, and we've failed to change some things that need changing, such as education. But I'm not as pessimistic as you are; I'm optimistic about California despite it's troubles—it has its climate, it faces Asia, it has an influx of new talent, especially from Asia. And a big mess brings on corrections; "this very failure that's bothering you so much looks like the first rays of sunshine" to me.

Q Any tips on how to develop temperament and character in young people of the BRK type, rather than the MBA type?
A It's good to understand models for failure. For example, East Germany. The best 5 million left and the worst 17 million stayed. Then they lived under Communism 60 years. That'll ruin even Germans. The same thing is going on in central cities. It's not an easy problem to fix. Prevention is preferable, though it's not easy to preemptively stamp things out in a democracy. You can't blame the Greek politicians for trying to make it easier for Greeks, but when it comes unglued.... In business, if you see high-quality people leaving A for B and C, and no high-quality people going into A, that's a similar model for failure. I recommend a tough-minded, rational approach, plus good will. An ounce of prevention

is often worth a ton of cure.

Q *(James Armstrong, Berkshire shareholder, Pittsburgh)* Last year you talked about a smart electrical grid. Are the BNSF rights of way useful for that? Could that add anything to Berkshire's net worth?
A I've never heard anyone talk about it but can't imagine the rights of way full of towers. "Put me down as skeptical."

Q Is BYD too dependent on a single person?
A There's a risk, but I'm used to it, working around our 80-year-old gallant leader. [At this point, Charlie asks Wang Chuanfu and BYD's vice-chair to stand and wave (applause).]

Q *(Alex Laga, a BRK and Wesco shareholder, Milwaukee)* An engineering mentality is prone to paralysis by analysis and to a fascination with models for their own sake. How does one avoid that?
A Look at BYD: 16,000 engineers but *determined* to be rational. They don't like unnecessary delays, nor analysis for the sake of analysis. By contrast, India has too much paralysis by analysis.

Q *(Austin, TX)* WEB credited you with giving him the concept of "durable competitive advantage." What are the best ideas he's given you?
A Warren knew about durable competitive advantage. He didn't need me. The amazing thing is we did so well while being so stupid. "That's why you're all here: you think that there's hope for you." Go where there's dumb competition. Patrick Wolff once told me I was better at what I did than Wolff was at what he did. I said no, I just played weaker competition.

Q *(Australia)* How do you determine bet size when you invest? Do you use the Kelly formula?
A We don't use any formulas. If you're referring to "Fortune's Formula," it's very intelligent if you get to make lots of bets that pay off quickly, but we get very few opportunities and our problem is to get enough of them to invest a lot of money. I suspect I may have intuitively used the formula when younger. It's correct, but of very little use to how BRK operates.

Q Given the high price, and in stock, for BNSF, can you improve their operating margins to CN levels?
A That's an easy one: we don't have to do "one damn thing—just let Matt Rose do whatever he pleases."

Q To what extent did you share ideas with WEB before you began co-investing?
A I always talked over ideas, but not with many people.

Q *(San Diego)* Excesses in the economy blew up in '08. You compared it to being on drugs. Are things worked out, or is there a hangover still?
A Of course it's not worked out. What you and I see as excesses are regarded by the

people doing them the way a diver regards his air hose. "I need it and I want it and so I should get it" is childish. We need to make changes, or we'll get more trouble.

Q *(Germany)* What do you think about central banks printing money and the ECB accepting Greek "garbage" as collateral?
A Everybody knew Greece was problematic when they joined the EU. It's amazing we didn't get a Greece-type problem sooner. It's very hard to fix: you don't want to set a bad example, nor let them go under. Ireland got a big benefit from joining the EU, but Greece threatens the whole system. [Charlie paraphrases a Woody Allen line: "Today we are at a crossroad. One road leads to hopelessness and despair; the other to total extinction. Let us pray we choose wisely."] I'm glad it's not my problem to solve, though I believe that, with my mindset, I would have acted earlier.

Q You suggest studying people one admires and the eminent dead. You've mentioned Lee Kwan Yew, Ben Franklin, Paul Volcker. Who else?
A There are lots within Berkshire. An example: managers are reporting, and one says he uses the 80/20 rule, focusing on the 20% of the business that makes 80% of the profit. The next says he does the opposite, focusing on the 20%-profit businesses that you can buy cheap and improve. They're both correct. You need multiple models.

Q *(College student)* I want to invest in Berkshire but I'm worried about succession and the future.
A BRK will be very successful long after we've gone. It has wonderful businesses and a durable culture.

Q If you were starting out with a small amount of capital, where would you focus?
A I wouldn't go where the big boys have to be, trying to decide whether Merck's pipeline is better than Pfizer's. I'd go where there are market inefficiencies and your work could lead to knowing important things that other people didn't.

Q *(Fund manager, New Delhi)* I admire your "lattice work" model but in applying it find that adding to one's toolkit takes a long time because you have to fit new things into a complicated framework. Is this inevitable or is there a way to speed up integration?
A I was born with a mind that works that way and am also curious, so learning isn't work but play. If your nature's different, you'll "have to figure out your own damn answer."

Q *(Student, Toronto)* Why is it the government, rather than someone like Berkshire, bailing out the banks this time?
A It's way worse this time. Nobody in his right mind wanted to see how far it would have gone if the government hadn't acted. It's a credit to democracy. England showed us that we could intervene directly in major banks, which was much better than TARP. It's a credit to Paulson that he switched plans when he saw a better one.

Q *(South Pasadena)* What about those condos Wesco built next to the headquarters building?
A I'm glad you brought that up because it's like rubbing my nose in financial failure, and

that's good for me. We had surplus property and decided to build condos several steps up from what you could buy in downtown Pasadena. We came to market in the worst condo market in a long time. We're selling condos at prices that give us a modest loss and resisting doing stupid things. Eventually there'll be one condo left and two or three buyers. I think it'll make a lot of money eventually for the buyers, but never for Wesco.

Q You said you regret so many Caltech grads go into finance. But mightn't they end up running those businesses and do better at it than Fuld?
A That could be true. You could probably take anybody at random out of Caltech and have them do better than Fuld. But there's an opportunity cost; there's a loss to civilization when bright people go into money-grubbing instead of science.

Q Can you comment on the state of the insurance business?
A Casualty insurance is intrinsically a very difficult business. As in financial businesses, people delude themselves to maintain volume. I wouldn't be looking for investments in the field. Berkshire is different, and a few others too, but those others are generally known and priced accordingly. Reinsurance is even worse.

Q *(Ottawa)* WEB says he expects a "reasonable return" on BNSF. What percentage or range of percentages is reasonable? Also, any books you've read in the past year and recommend?
A Berkshire is looking at opportunity costs. We spent 6% of shares outstanding to acquire BNSF. We were getting low returns on cash, and we paid low rates on the money borrowed to do the deal. It's a better deal for Burlington shareholders, but that doesn't mean it's a bad deal for Berkshire shareholders. Bringing in Matt Rose, who's quite young, is a huge plus. Though not an iron rule, we hope to make, say, 10% pretax long term when buying with equity. But this was part equity, part debt. Stocks generally will probably do worse that 10% pretax; this isn't an environment you should be happy about. We might be wrong about getting 10%, too. As for books, the ones about the Great Recession are all very interesting. John Paulson is a very interesting story; his imitators are going to create a lot of trouble. The same applies to me to some extent; I try to atone by doing other things.

Q *(Toronto)* It seems the rate of change in business is speeding up. Does that make things harder?
A I don't know what will happen in the next 20 years and have very little reason personally to care. That said, the most interesting rate of change is in China—so fast, so pragmatic that I am quite optimistic. An amazing percentage of Chinese Communists have engineering training. "That's my kind of Communist." We're too critical for expecting them to do things exactly our way. They're coming up the technical competency curve at a rate with no precedent except perhaps Japan, and they're a big country. It's very difficult to compete with them. They're wise to foster people like BYD who are trying to make things better rather than just cheaper. In my youth, I liked the King Fong Restaurant in Omaha. Recently, I drove by, and downtown Omaha has gone to hell but it's still there. The Chinese find a way to survive.

Q *(San Jose)* You said solar was too expensive for your house, yet Midamerican is investing in solar and wind.
A I don't second-guess Midamerican. As for photovoltaic, I thinks it's about to get a lot cheaper, and therefore isn't a buy now. But I could be wrong.

Q Float at Wesco has gone up quickly compared to float at Berkshire. Can it keep going up? Also, why was it Berkshire and not Wesco that invested in BYD?
A The second one is easy: strategic stuff almost always involves BRK, which is bigger and famous. To repeat, Wesco is not a smaller Berkshire. The insurance is a gift; if Wesco wasn't part of BRK we wouldn't have any way of getting it. As for CORT, it "looks pretty damn mediocre" and was bought at the top of a boom; still, I think it will do all right over time. You shouldn't analyze Wesco as an independent entity; it's a "weird historical accident."

Q *(USC MBA student)* Can you come talk to us?
A I used to once a year; one talk's in *Poor Charlie's Almanack,* and it wears pretty well, so you don't need a live Charlie. Warren does a lot of that and likes it; my taste for it is limited, so I can't help you.

Q Does WEB prefers durable competitive advantage to Graham-style investing because it's a better model, or because it works better for large amounts of capital?
A If I were young and had a small amount to invest, I would be looking in the small-cap world.

Q *(Los Angeles)* Is CORT in a cyclical or secular decline? Is there a goodwill writedown coming? And what about Goldman Sachs?
A CORT will do OK and justify the price paid but not be a worldbeater. But it's getting pretty dominant in its niche, so maybe I'm too negative. On Goldman: The total return derivative is a way to avoid margin limits and deceive accountants; I hate its social implications. I dislike other derivatives too. Warren wrote a letter against allowing S&P derivatives, but after they were made legal anyway, he invested in them; nothing inconsistent in that. In a world where derivatives were allowed, I see no reason to think Goldman was misbehaving, just doing what others were. The disadvantage is that it's hard to explain to the public. I suspect they'll change; Blankfein is pragmatic and flexible. Goldman deserves its share of blame for helping to persuade the government to allow derivatives trading, but no more. The idea that any sort of risk transfer between consenting adults ought to be legal is wrong. But Goldman Sachs shouldn't be singled out.

Q *(Boston)* Why did Coke buy back its bottlers, and what makes a good distribution business?
A I don't follow Coke, but originally they spun off low-margin businesses into non-consolidated entities to make the accounting look better. That's not a Munger-type thing to do, so if they're undoing it, that's a good thing. By the way, I think the new CEO of Coke is the best we've had in a long time.

Q *(Chicago)* Clayton's products are great, but it's almost impossible to put a Clayton home in Chicago due to zoning. Will that change?
A Kevin Clayton is very interested in taking Clayton techniques upscale and getting past regulatory problems. Clayton houses are improving. Charlie thinks we'll see more Clayton-type methods used in the future, though it's a slow process of change; the custom home approach is *so* expensive.

Q *(Los Angeles)* Can you recommend investment books for children and strategies for getting them interested in investing?
A I'm not sure I believe in getting you children interested in investing. For myself, I think that investing helped with wisdom acquisition, and wisdom acquisition is a moral duty; but the money all goes away when you die.

Q *(Shreveport)* Why do you and WEB read 5 newspapers daily? And will Goldman Sachs divest its derivatives business?
A To the second question, not unlessed forced to, any more than a diver will step on his own air hose. To the first, "It's all I can conveniently crowd in." "I am particularly charmed by the *Financial Times*," but I also like the *Wall Street Journal;* I'd read more if I had the time. I skim. I don't know anyone who's really wise in the practical world who reads no newspapers. Maybe you can do as well with keyboards and multitasking, but I don't think so.

Q If you were 35, would you move to Singapore?
A I'm such a lover of the US I'm not going to move to Singapore. With all its defects counterbalanced by its virtues, I love this country. The move might be right for somebody else. If crime goes up by a factor of three, affluent people might move to Singapore, but I won't.

Q *(Santa Monica)* You said reinsurance is a tough business, so why the Swiss Re and Munich Re investments?
A Warren makes those decisions. Those are both respectable businesses that have been around a long time. They're portfolio investments at what seemed like reasonable prices. That doesn't change my general view of reinsurance. *Of course* it's difficult to judge whether to invest in them. I like no-brainers like Costco and BYD better, but you don't find very many.

Q *(Los Angeles)* With banks moving away from mark-to-market and keeping troubled assets on their books, how is Wells Fargo affected?
A Wells Fargo got very cheap at the low tick. Yes, they made mistakes, and yes, they have a lot of work cleaning up Wachovia, but it's a good investment even at the current price. Even the best banks drift with the times and do stupid things, but I suspect Wells faced up to it better. We may be getting changes in credit cards. We've been issuing them to "fiscaholics." I don't like issuing credit at 30% to people who can't really handle it. "But that's a crotchet, not a complaint." However, how many here agree? (Many hands go up.)

Q *(Chinese online journalist)* What fields for investment are you interested in, besides BYD, in China? And what advice do you have for Chinese investors?
A It's hard to imagine finding another one as good as BYD. We'll look, but will be surprised to find another one.

Q Any more add-on activities at GEICO?
A The credit card was "a really stupid decision that got a bad result." I hope we don't find another "opportunity" like that.

Q *(Los Angeles area accounting prof)* Advice to accounting students? And should our investment group buy more Berkshire?
A Huge changes are needed in accounting standards, but that's a problem at the top of the profession. As a professor, you have to hold your nose and teach the standards as they are. We never—well, almost never—tell people when or whether to buy Berkshire. Accounting is a noble profession; double-entry bookkeeping had a big role in the rise of Venice. But accountants fear liability if they make difficult decisions. I would favor exempting them from liability for anything except deliberate fraud, in exchange for requiring them to be conservative.