



## Charlie Discussing Daily Journal's Business:

So we had this newspaper which formally had monopolistic qualities, and like many newspapers, it was a fine business. It required some management, but it was fool proof. And of course the world changed for us, as for other newspapers. A million a year pre-taxes is what we have left. In other words, whether we'll keep going down or hold there I don't know. But if you're holding this stock because you want that newspaper to come back to its former glory, I've suspect you've developed some sort of different rational.

What we did as we were in the same position as other newspapers were in where they were shrinking towards oblivion, was we made a lot of money out of the foreclosure boom. We had more than 80% of the foreclosure notice business, and **it was like being an undertaker in a plague year.** It provided huge prosperity for us, coming at a time when everyone else was in total agony. Well that gave us a lot of money and we used that money to buy securities at low prices during the panic.

Aided by that peculiar response to the deterioration of our newspaper business we have entered the software business. And that has been a slow expensive troublesome thing. Now we have written off practically everything we spent on it. And we had plenty of taxable income to do that with. What's happened now is that we now have more software revenues than we have print revenues. And that business is way better. Now it's not doing better in terms of reported earnings, but on the sales field, we're just keep doing better and better and better because our product, we honestly believe, is way better than our main competitors. And there's a endless market for software in these (publications). District Attorneys, Adoption Agencies, Courts, etc. You could hardly imagine anything more sure to keep flourishing and to keep needing more and better software systems.

Now it's agony to do business with a whole bunch of public bodies and their consultants and their bureaucracies and so on. And it's such agony that a lot of big companies that are in software don't come near it. If you're Microsoft, you're use to easy money. And this just looks like agony. The really big boys find our niche in the software market such absolute agony that they tend to stay out of it. And I think our products are probably better than those of our main opposition. But of course our opposition has way more of the market.

What you people have now is a sort of venture capital operation in the software business with the (tag-end) remnants of a newspaper attached. And the stock may be reasonable if you like highly valued venture capital investments, but for you old time Ben Graham groupies, you're in a new territory. I'm not saying it won't work, but if it works, you don't really deserve it.

## Charlie Begins Taking Questions:

**Question:** Could you tell us one or two opportunities that you're excited about for journal technologies? And also, in the next year, what are one or two hurdles or threats?

**Answer:** The one that I'm most excited about, in Daily Journal technologies, was getting the contract from the Los Angeles courts. It's one of the biggest court systems on earth and that was, as far as I was concerned, a crucial milestone. And you can stop and think about it. If we succeed in saturating California, with a huge success, it may well spread

elsewhere. And we bought this little nothing of a software company...and it turns out that they're really good at all this service to all of these clients that need to have the service.

We've crossed over into a new business. And the new business is interesting because it's a big market. It's a big market. And I think if you ever get entrenched in it, it will be a very sticky business. Which has occurred to us as we suffered all of this agony. At least we were suffering agony in an attempt to get into a position from which we'd be hard to dislodge.

And the main threat or hurdle is that we want to be the most important player in this new niche, which is a big, big, niche. And of course we're concerned about that. I don't regard that battle as won. I regard it as going well, but not won. In fact I'd even say going very well, but not won.

**Question:** In investing, you talk about how you want to stay in your circle of competence. A few years ago, Warren Buffett decided to buy IBM. And he's still very optimistic. But some people say that he went out of his circle of competence. What is your comment about this investment, and what do you think of its future?

**Answer:** Well IBM was a lot like us, they had a traditional business that was very large and it was very sticky. And of course, the world changed, and a lot of what flourished in the new world, they were not the leader. Up came Oracle and Microsoft and all kinds of other people who were formerly not so large. And of course they didn't do well in personal computers even though they well started it.

IBM is a position that is lot like us where they have an old business from which cash continues to flow, but they want a new product that's a hit. Now the product that they've chosen to back is this...I call it an "automated checklist". Well an automated checklist is a very good idea and it may be particularly useful in things like medicine, but is it the kind of super market that may replace a lot of what made IBM great? And I would say the jury is out on that. I don't really have an opinion. In other words, I'm neither a believer or a disbeliever, I regard it as a mystery. It could happen and it could not happen as far as I'm concerned. I do think that the old business of IBM is very sticky and will die slowly.

It's not a cinch. The truth of the matter is that at Berkshire's size, where we have to make great big bets and hold them for long periods, that's a tough game and we have to make

bets that are not the kind of shooting fish in a barrel kind of bets that we use to make. And that's one of them.

So...the answer my friend is blowing in the wind. It may work in a mediocre way, it may work big, I just don't know.

**Question:** What advice do you give to your grandchildren?

**Answer:** Well regarding the grandchildren, I was not able to change my children very much. My situation reminds me what Clarence Darrow said when he read the great poem that ended, "I am the master of my fate, I am the captain of my soul." Clarence Darrow said, "Master of my fate? Hell, I don't even pull an oar!" That's the way I feel about changing the children. And regarding the grandchildren, thank God they're somebody else's problem. (Big laughter) I served my time.

**Question:** Do you have a favorite investment story?

**Answer:** Well, investment stories from my younger days...I'll tell a story I've never told before. Years ago, 1962, my friend Al Marshall came to me and said, "I want your help in bidding for some oil royalties." They were being put up by auction. I soon realized that under the peculiar rules of an idiot civilization, the only people who were going to bid for these oil royalties were oil royalty brokers who were scroungy, dishonorable, cheap bunch of bastards. I realized that none of them would ever bid a fair price. So I said, "We just need to bid high enough to get some of these royalties. You can't possibly fail in an auction where they excluded everybody but kind of shady, difficult, cheap bastards." So we bid for those oil royalties and we financed the thing with a down payment. We each put up a thousand dollars, and for many, many, years, the Mungers were getting \$100,000 a year, 50 years later. More than 50 years later. Out of a thousand dollar investment. The problem with that story is that it only happened once. (Laughter) That's true with most good investment stories. You don't get very many. It isn't like that kind of opportunity comes along every day. The trick in life is when you get the one, or two, or three that your fair allotment for a life is that you've got to do something about it. So that's my story from my youthful days.

**Question:** How is the current energy environment compared to the early 80's when you were running Wesco are there any notable similarities or differences this time around?

**Answer:** Well of course we owned Wesco for a long time. What's interesting about both Blue Chimp Stamps, which controlled Wesco, and Wesco is that they eventually were some of the most successful investments in the history of mankind. What's interest about those outcomes is that it was only 5 or 6 transactions that carried all the freight. Really heavy freight. Now that is really interesting when you stop and think about it. You try and do a zillion little acquisitions...it's hard. But by just doing a few things over a long period of time and having them work out well, those little nothing companies... They were all doomed. The trading stamp business. The savings and loan association. The savings and loans are pretty long gone. And yet they worked out fairly well. There again, just a few good decisions over a long period of time.

Some great investment success once said, "You make your money by the waiting." Now that doesn't mean sitting around for the next depression, you can't do that, but a fair amount of patience is required in some of these good investment records. Patience followed by pretty aggressive conduct when the time comes. Imagine sitting there, were having all of this money rolling in with the foreclosure boom, and then deploying it in like one day. At the bottom tick for some of those stocks. Now that was luck. And it was luck that we had caught the bottom tick. It wasn't luck that we had the money on hand when other people didn't and were willing to deploy it when other people were running for cover.

**Question:** What other business models did Berkshire Hathaway try/consider, but ultimately did not pursue?

**Answer:** Well we were always optimistic. We wanted to buy the best thing that was conveniently available and that we could understand. In the early days, we thought we had a special advantage as investors in our little securities, so we tended to look carefully at float businesses. Nowadays of course, we've got enormous float and it hasn't been that much use to us. Such is the nature of life. We made so much money on those float businesses that it was obscene in the early days. And it's not a tragedy that now our float businesses don't get much advantage about the float. Berkshire's cash which is large is not getting much of a return. In Europe, the rates are negative. Japan the rates are negative.

**Question:** What do you think about the attractiveness of the software business versus industrial franchises?

**Answer:** Software based businesses, some of them have become some of the most profitable businesses on earth. Other software companies are failing and shrinking. So it's like the rest of capitalism. It has its good spots and its bad spots. And as I've said, the one we're pursuing will be sticky if we succeed in it.

**Question:** Other competing businesses in the journal tech space are growing faster. Why is that? And they seem to be selling for higher multiples. Would you ever consider selling Daily Journal Technologies at a high multiple?

**Answer:** Well, nobody has offered us a high multiple. It's a peculiar part of the software business involving a lot of agony now for a payoff way later. You can't judge it as a normal business. It's venture capital. It just happens to be located in a publicly traded company. If venture capital works, it could gradually evolve into a pretty huge business. But of course, everybody's trying to evolve into a pretty huge business, and only a few succeed. But we're not like a normal software business. And those little companies were not acquisitions like Berkshire Hathaway makes acquisitions, those were not established companies that were sure to succeed and relatively fool proof. If we were going to make our venture capital type assault on this kind of peculiar part of the software market, we needed momentum from other sales forces and service operations and so forth. So we just bought them. But don't judge those things by the standards of normal corporate acquisitions. Those are part of venture capital.

**Question:** If you were to design CEO compensation for an insurance company or bank, how would you do that?

**Answer:** Well both Berkshire and the Daily Journal have our own way of doing things and we don't follow anybody else's. We just try to do whatever makes sense under the circumstances.

**Question:** What's your expectations about BYD for the next 10 years?

**Answer:** Well, we allow questions on all subjects, and I suppose that one is a legitimate question. BYD has 220,000 employees. That is a big company. That too was venture capital when we went into it. That company has done amazing things. The man who created that company was like the eighth son of a peasant. He went to engineering school, got a PHD, and started off by borrowing \$300,000 from the Bank of China. And

going into the small batteries for cell phones and so forth which was totally dominated by high-tech Japanese firms. And he succeed in grabbing about a third of that market from a standing start of zero. And he won the intellectual property rights of the litigation. And that litigation happened in Japan. He was a very remarkable man doing an almost insanely ambitious thing. And out of that, he has 200 and some thousand employees and a huge lithium battery plant. Last month he sold 10,000 electric cars in China which is more than Tesla sold. And of course nobody's hardly heard of BYD.

It's an interesting company. Berkshire doesn't do this kind of venture Capital stuff. And I hope the Daily Journal will work out half as well as I expect BYD to work out.

BYD is in a position, on purpose, to benefit from this electrification trend in the world. **It's been very helpful to them that people are dying on the streets of Beijing because they can't breathe the air.** They haveto go to electric cars in Beijing. And BYD is ahead in terms of efficient manufacturing.

They're very well located. That's a very interesting venture capital investment. Now was it an accident? Sort of. Berkshire departed from its standard methods and did that one. I would say that I only wish our prospects were as good as BYD's. And by the way, they might be, but it's not the way to bet.

**Question:** When you value a company, what discount rate should we use? Warren Buffett has used a risk free rate and sometimes makes some adjustments. And I've read that you use an opportunity cost approach of your next best investment. Which one of these are correct?

**Answer:** Well, they're both correct. Obviously it's relevant what the return you get on a government bonds is. That affects the value of other assets (in the general climate). And obviously your opportunity cost should govern your own investment decision making. If you happen to have rich Uncle who will sell you a business for 10% of what it is worth, you don't want to think about some other investment. Your opportunity cost is so great that you forget about everything else. And most people don't pay enough attention to opportunity costs.

Bridge players know about opportunity costs. Poker players know about opportunity costs.

**Question:** When you arrive at the valuation number using the discount rate, does that mean that between the two rates...

**Answer:** We don't use numeric formulas that way. We take into account a whole lot of factors. It's a multifactor thing and there's a trade-off between factors, and it's just like a bridge hand. You have to think of a lot of different things at once. **There's never going to be a formula that will make you rich just by going through some numerical process.** If that were true, every mathematical nerd that gets A's in algebra would be rich. (laughter) That's not the way it works.

You've got to be comfortable thinking about a lot of different things at once, and correctly thinking about a lot of different things at once. You don't have a formula that will help you... and all that stuff is relevant. Opportunity cost of course is crucial. And of course the risk free rate is part of a factor that determines how attractive some common stock is.

Question: Do you use the same discount rate for different businesses. For example, an IBM or a Coca-Cola?

The answer is, no, of course not. Different businesses get different treatments. They all are viewed in terms of value and you weigh one against another. But of course we'll pay more for a good business than a lousy one.

We don't really want any lousy businesses anymore. We use to make money by (buying) lousy businesses and kind of wringing money out of them. That is a painful difficult way to make money if you're already rich. (laughter) We don't do much of it any more. Sometimes we do it by accident because one of our businesses turns (on us)... and we deal with those businesses the best we can, but we're not looking for new ones.

**Question:** I have a mental models question for you. You talk about these quick, cut to the chase, algorithms that you use, do you arrive at that fluency only after having gone through your entire mental model checklist over a long period of time? Or is it simply a matter of, for example, knowing you're looking at a social situation and so the psychology checklist might be appropriate.

**Answer:** Well, if you're talking about multiple models, that means you're thinking about



many different models. That's the nature of reality particularly if you're an investor with a wide variety of human activities, and there's no way to make that easy.

Look, you all are in the business, do you find it easy? (laughter) Anybody who finds it easy is wrong. You're living in a delusion. It's not easy. You occasionally will get an easy one. But not very many. Mostly it's hard.

How many people find it hard to make those investments right now? (Most people raise their hands) Yeah, yeah, it's an intelligent group of people. (laughter) We collect them.

**Question:** You talk about making an effort to reduce standard errors and doing so by not taking part in auction processes. In terms of your daily habits or life habits, what do you do that most people don't, to reduce standard errors.

**Answer:** Well, there are two things Warren and I have done, and Rick Guerin has done too. One is that we spend a lot of time thinking. Our schedules are not that crowded. And we're constantly... **We look like academics more than we do like businessmen.** So our system has been to sift life for a few opportunities and seize a few of them. And we don't mind long periods in which nothing happens.

And Warren is exactly the same way. Warren's sitting on top of an empire, and you go to his schedule sometimes and there's a haircut! (laughter) "Oh, there's a haircut today."

That's what created one of the most successful business records in history. He has a lot of time to think.

And that brings me to the subject of multi-tasking. All of you people have got very good at multi-tasking, and that would be fine if you were the chief nurse in a hospital, but as an investor, I think you're on the wrong road. Multi-tasking will not give you the highest quality of thought that man is capable of doing. Juggling two or three balls at once where people come at you on their schedule, not yours, is not an ideal thinking environment.

But I do think that the constant search for wisdom, and the constant search for the right kind of temperamental reaction towards opportunity, I think that will never be obsolete. And you can apply that to your personal life too. Most of you are not going to get five opportunities to marry some wonderful person. Heck, most of you aren't going to get one. (laughter) You're just going to have to make do with an ordinary result.

**Question:** Question regarding Daily Journal and its purchase of Wells Fargo stock. Wells Fargo was a levered institution and you bought it at a time when banks were failing. How did you arrive at that decision?

**Answer:** Well that's a good question. I'll take you back to one time before. When Berkshire bought Wells Fargo, the world was coming unglued in banking panic, and again real estate lending had been the source of it. And Wells Fargo had been huge in real estate lending... But the answer was, we knew that the lending officers at Wells Fargo were not normal bank lending officers. They had come up, a lot of them, from the garment district, and they had this cynical view of human life. They were appropriate careful. And when they needed to intervene strongly they did so because they learned that was the right way to run a garment lending business. And they were just better. And so we knew they weren't going to lose as much money as everybody thought they were with that big real estate portfolio. Because they had chosen it better and they had managed it better, etc. etc. So we had an information advantage just based on general thinking and collecting data... We were aware that they had that special capacity. Well that gave us a big advantage so we bought heavily. That was one.

Now number two; the Daily Journal Company. When the world was coming unglued when the Daily Journal bought Wells Fargo stock. But we again, we knew that the bankers at Wells Fargo were more rational than ordinary bankers. It was a different kind of superiority and rationality. It wasn't this big real estate portfolio on a shrewd way of handling developers. But it was still a shrewder way of being in banking.

**I don't think anybody could ever buy a bank who doesn't having a feeling for how really shrewd the management is.** Banking is a field where it's easy to delude yourself into reporting big numbers that aren't really being earned. It's a very dangerous place for an investor. Without deep insight into banking, you should (avoid it).

**Question:** Two powerful mental models are the concept of specialization, and the multi-disciplinary approach. Do you have any advice on synthesizing them?

**Answer:** Saying you're in favor of synthesis is like saying you're in favor of reality. Synthesis is reality because we live in a world with multiple factors and models. And of course you've got to have synthesis to understand a situation when two factors are intertwined. So of course you want to be good at synthesis. And it's easy to say that you

want to be good at synthesis, but it's not what the reward system of the world pays for. They want extreme specialization. And by the way, for most people, extreme specialization is the way to succeed. Most people are way better off being a chiropractor than trying to understand a little bit of all the disciplines. I don't want a chiropractor who's trying to be a poet. I want somebody who really knows a lot about feet. And the rest of the world is that way. And so this model of being good at synthesis across a lot of disciplines it's very helpful to some people. But it's not the correct career advice for most people. For most people the correct career advice is figure out some clever specialty and get very, very good at it. The trouble of it is, is if that's all you do, you make terrible mistakes everywhere else.

So synthesis should be your second attack on the world. And it's really **defensive**. Without synthesis, you'll be blindsided in all the other parts of your life that aren't "chiropractic".

**Question:** What advice could you give for a person to improve their own rationality.

**Answer:** Well start working at it young and keep doing it until you're as old as I am. That's a very good idea, and it's a lot of fun. Particularly if you're good at it. I can hardly think of anything that's more fun.

**You don't have to be the Emperor of Japan to get fun out of rationality.** If you can avoid a lot of hopeless messes and you can help other people (avoid) a lot of their messes, you can be a very constructive citizen. If you're always rational.

Being rational means that you avoid certain things, it's like "I don't want to go where I'm going to die." I don't want to go where the standard result is awful. Where is the standard result awful? Try anger. Try resentment. Try jealousy. Envy. All of these things are just one way tickets to hell. And yet some people just wallow in them. And of course, it's a total disaster for them and everybody around them.

Another one that is just awful is self-pity. If you're dying of cancer, don't feel sorry for yourself. Just chin up, and suck it up. Self-pity is not going to improve anything, including (cancer). Self pity is just...forget about it. Get it out of your repertoire.

**Question:** Some people have not found the ROI on marriage to be worth it. What's your

valuation on the investment of marriage.

**Answer:** Well, I think different folks can live in different ways, but I think all the evidence is that marriage is the best practical alternative for most people. And the statistics show it. They live longer. When you measure happiness, physiologically and so forth. Considering how difficult the world is, it's your best chance for most people. And of course it should be valued.

That's one of the things I like about the Asian cultures. The Confusion idea that the family is really important. It's a very sound idea. If we ever lost the family values, we'd have one hell of a lousy civilization.

**Question:** Happy belated 29th birthday.

**Answer:** Yes. Very belated.

**Question:** Why purchase real estate in Utah, rather than deploying it in the technology business?

**Answer:** We think we're going to be in Logan, Utah for a long time. We have a very happy bunch of employees there. They like their work, they like their community, they like everything about it. And it's part of a business operation. We've got customers who come there and it's a very presentable building. I've never seen it, but it's got a river that flows by. Of course we're glad to own it. We own this real estate. We bought it cheaply, we built it cheaply, it's a nice piece of property. The neighborhood around it has steadily upgraded and gentrified it as we expected. Nothing wrong with owning a little real estate. Our way of getting ahead was not to be real estate operators. But we don't mind owning real estate, it's part of the business. **And it simplifies life.**

**Question:** Do you think a person who can't make money running a New Jersey casino is qualified to be President of the United States?

**Answer:** Well, he did make money for quite a while. My attitude is that anybody who makes his living running a casino is not morally qualified to be President of the United States. I regard it as a very dirty way to make money.

**Question:** What has given you the greatest sense of accomplishment?

**Answer:** Well, my family life has been more important to me than wealth or prominence. On the other hand, I hated poverty and obscurity. (laughter) I tried to get out of them and it has given me some satisfaction that I came a long way from where I've started. I think most people who've come a long way from where they've started feel pretty good about it. I think most the people who've finally sat atop of Everest, even though they'll only stay there for 15 seconds... And so, I think that's good. Cicero use to say that 'one way to be happy in old age is to remember a lot of achievements in your past.' Now some people say that's too damn self-centered and you should be thinking about God or something, but I agree with Cicero. It's ok to live that kind of a life if you're kind of pleased with it when you're old and look back.

**Question:** If you had any advice to give to a younger version of yourself, what would it be?

**Answer:** Well my advice is always so trite. The good behavior, being dependable, and morality. It makes your life easier. It makes it work better. You don't have to remember your lies which gets complicated if you keep lying all of the time. In fact, it gets so complicated that you're sure to fall off and you'll be recognized as a liar. So, I think all the old fashioned morality works. The old fashioned discipline works. The old fashioned good behavior and a little generosity.

We all know people who have people come to their funeral just to make sure they're dead. (laughter) You don't want to be in that crowd. You want to live your life so that some people will actually miss you when you're gone.

I think Kiplings's 'if', is a great poetry. Kiplings doesn't exist in the modern college anymore. It wasn't politically correct. So I think Kiplings's "if" is great poetry and it's great advice. "If you can keep your head when all about you are losing theirs". What's wrong with that? And the quote, "Be a Man my son!" Why don't you want to be a man? You want to be some idiot child all your life? Some angry twit? There's so many of them already. There's so much to be gained by never being an angry twit. In fact I think anger is just...If you want to be philosophical, this political situation we all face now, of course it's disgraceful, a lot of these people. I mean, it's bad that a leading civilization has candidates for a high office many of them like those we were talking about. And they're

not all in one party. You don't want to get angry. After all, politicians have been politicians for a long, long, time. And, you want to operate constructively? Vote constructively.

Anger. There's so much anger in politics right now. So much automatic hatred. How could any of us really know whether the United States will be better 50 years from now because we vote Republican or vote Democrat in the next election? Who can tell what the exact mix is between compassion and something else?

All of those things were in the old behavior rules. By the way, the Muslim behavior rules read a lot like the Old Testament. Which of course they copied. They claim they came directly from God, but really they stole them from the Jews.

**Question:** What is the relationship between oil prices and economic growth?

**Answer:** I think it's obvious that if oil had been a little cheaper and easier, the growth would have been greater than mankind had. In that sense, if oil gets very expensive and we still need it desperately, it will make life harder, and so there is that correlation between oil prices and economic growth.

On the other hand, some very peculiar things happen. When you take Exxon and Chevron and so forth. What's happened to make those things good investments over the long term, is the damn price of oil went up faster than their production went down. **Now name me another business where you get richer and richer where your production of real units, keep going down, down, down.** So, not everybody would have predicted that in advance including most of the economists. It's a complicated subject...

And there's another trick to it. People who really have a lot of free energy, like the people of the middle east? They have very dysfunctional economies. They're (like) a bunch of rich people spending their capital and not knowing how to do anything that anybody else wants to buy. Maybe in that sense, having a tougher hand has been good for us.

My answer to your question reminds me of what my old Harvard Law professor who use to say to me, "Charlie, let me know what your problem is and I'll try and make it harder for you." I'm afraid that's what I've done for you.

**Question:** How do you understand a new business or new industry that you are trying to

get into where the dynamics are different? How do you get deep insights into the specific domain?

**Answer:** The answer is barely. I just barely have enough cognitive ability to do what I do. And that's because the world promoted me to the place where I'm stressed. And if you're lucky, that will happen to you. **That's where you want to end up is stressed. You want to have your full powers called for.** And believe you me, I've had that happen to me all my life. I've just barely been able to think through the right answer time after time after time. And sometimes I've failed.

**Question:** Last year, you had some very pointed comments concerning Valeant, and I want to know, do you have...

**Answer:** It's caused me nothing but trouble. (laughter)

**Question:** Do you have any update regarding Valeant? Do you have any areas where you have similar concerns?

**Answer:** It probably wasn't wise for me to inject myself, I have no dog in that hunt. I have no interest in the pharmaceutical business. I have no interest in Valeant. It's just that you people have come so far...(laughter)...to tell you amusing stories about life and make comments about current affairs. And Valeant was such an extreme example of misbehavior.

It ended up with one of the Valeant shareholders saying that Warren Buffett was a sinner because he owned Coca-Cola. I drew retaliation to Warren. By the way, that's a good place, if you're anybody that's mad at me today, why (not get) mad at Warren? He can handle it, he's a very philosophical man.

It is true that these crazy false values, and these crazy excess, is, it's bad morals and it's bad policy. It's bad for the Nation. It's just bad, bad, bad. And there's a lot of it. And of course there's a lot of it is in American Finance... The truth of the matter is that Elizabeth Warren would not agree with me on many subjects and I wouldn't agree with her on many subjects, but she is basically right when she says that American finance is out of control and has too much evil and folly. And it isn't good for the rest of us. Both Elizabeth Warren and Bernie Sanders, not two of my favorite people on earth, are absolutely right

on that subject. And the extent that you all see it. You all see what all goes on in finance with the craziness... It's very bad for all of us that we have this huge overdevelopment of finance. And yet, it's pretty hard to do anything about it.

What happened was, you look back to say Edwardian England, or a little before. And maybe 300 people owned half the land in England and they had nothing to do. What did they do? They went into the clubs of London and they sat around the card tables and they played (card games) for high stakes. And that's what human nature does when people have a lot of leisure and so on.

Fade in, fade out, and multiply the wealth per capita of the world by 30 or so and now we got all kinds of people who are like the Lords of England who had all that time to sit around and play cards against one another and enjoy thrills and games of gambling.

We have a vast gambling culture and people have made it respectable. Instead of betting on horses or prize fights, they bet on the price of securities, or the price of derivatives relating to securities. Of course you can bet on athletic contests. We have a huge amount of legalized gambling. And of course the public market that operates every day with transactions is an ideal casino. And there's a whole bunch of people who want to own the casino and make a lot of money without losing money on inventories or credit risks, or any other irritating parts of business. Just to sit there and have every night gold go higher and higher. Who doesn't want to be croupier at a casino? And very respectable people get drawn into it if they see other people getting rich at it. There's way too much of that in America. And too much of the new wealth has gone to people who either own the casino or they're good at playing others in the casino. And I don't think the exhalation of that group has been good for (the public generally).

And I am to some extent a member of that group... and I'm always afraid that I'll be a terrible example for the youth that I think will just want to make a lot of money with soft white hands and not do much for anybody else, I just wanted to be shrewd in buying little pieces of paper. Even if you do that honestly, I don't consider it very much of a life. Just being shrewd about buying little pieces of paper, shrewder than other people, is not an adequate life. It's not a good example to other people. And it's the reason that people like Warren and me (are charitable and are) running businesses. We're not just buying little pieces of paper.



So I think that we have something going in our nation that is really very serious and very bad. And I hate to agree with Elizabeth Warren on this subject, but she's right. I don't see a way of stopping it except with some big legislation changes.

And you'll say, "What difference does it make?" Well, what happens is, as the cyclical of the gambling with securities and other assets goes on, what happens is, **the big busts hurt us more than the big booms help us**. And we say that when the great depression ended and the rise of Adolf Hitler. A lot of people think that Hitler rose because of the great Weimar inflation. But you know Germany recovered pretty well from Weimar inflation. What they did is they destroyed the currency. They just issued a new currency. It's really interesting. They said, ('oh people who got rid of their old mortgages we'll replace them with new mortgages and they'll owe us the new currency back.') But what really enabled Hitler to rise was the Great Depression. You put it on top of the Weimar inflation the Great Depression and the people were just so demoralized that they were subject to being snookered by a guttersnipe like Adolf Hitler. So I think this stuff is deadly serious in that these crazy booms should be (nipped in the bud)... People like Alan Greenspan, he's an amiable man but he was an idiot! (laughter)

You do not make the head of the Federal Reserve, the governor of all banking, somebody whose hero is Ayn Rand! Who believed in no government at all! It's a very unlikely place to look for correct decision making. And it's probably not the kind of decision making that we observe. I think he's an honest and amiable man, but of course he didn't see reality the way that it was. A lot of people think that if an ax murder happens in the free market that it has to be all right because free markets are all right. A lot of those people are in my party by the way.

**Question:** Is the Automobile Industry meaningfully different today than it was (10) years ago? Does GM make sense in the Berkshire portfolio?

**Answer:** The second one is easy. General Motors is in our Berkshire portfolio because one of our young men likes it. And Warren lets the young men do as they please. Warren, when he was a young man, didn't want any old man telling him what to do. So he delivers that kind of freedom to his young men.

I haven't got the faintest idea of why that young man likes GM. It is true that it's statistically cheap and it may be affected by the federal government in the end. So it may

be a very good investment. But the auto industry is about as brutally competitive an industry now as I have ever seen it. Everybody knows how to make good cars. Everybody. And they rely on the same suppliers. And the cars last a long time with very little service. And everybody leases them at cheap rents, and has all kind of incentives. It has all of the earmarks of a very commoditized, difficult, super competitive market. So I don't think the auto industry is going to be a terribly easy place. And it may actually shrink one of these days. In other words, the culture of everybody having three or four cars could actually shrink. And so, I think that the auto industry is not a cinch. If I were investing in the auto industry, I'd want some place that I thought was way the hell better competitor than the others, and that's hard to find.

**Question:** For most of the oil market's history there's been some entity enforcing production controls. But today Saudi Arabia (operates) more as a base load producer than controlling OPEC's production. Would you suspect that this will result in protracted negative impact on the economics of all those related to oil production? Or is the way to bet that some entity will eventually re-emerge for production control.

**Answer:** I would not have predicted that oil would be at its present price. In fact, if you forced me to bet, I would have bet that what has happened wouldn't have happened. But it did. I think that it's generally true that with these commodities you can get periods of extreme high prices, like we had in iron ore, and extreme low prices, like we now have with iron ore. So I think that commodities do strange things both up and down in terms of prices. And of course they have macroeconomic consequences. And huge consequences if you're in Australia having these commodities going way down is terrible. If you're in the tar sands area of Canada having oil prices go down to where they are now...I don't even know how economic it is to produce tar sands oil at \$30 per barrel. My guess is that it's not very attractive. And it may not work at all. You're in a weird period.

But I think it's the nature of the human condition that with free markets in stuff like iron ore and oil, you're going to have weird periods high prices and weird periods of low prices. **I've never been able to predict accurately, or make money predicting accurately those swings. We've tended to get into good businesses and then take the bumps as they fall.**

**Question:** Would you please recommend some books that you've enjoyed lately?

**Answer:** Well you people send me books, like 30 a week. That I tend to skim them so rapidly that I no longer develop the joy of reading I use to when I picked a few books of my own to read. (laughter) So you're ruining my judgment of books. I can't resist reading the damn things when you send them to me. No I skim a lot of them, and I like each one in its way, because it's different from anything else I normally do. But I'm no longer a good book source.

**Question:** Regarding philanthropic work, what inspired you and what results do you look for?

**Answer:** Well, I never wanted to tackle problems like world peace. I read enough biographies. Carnegie thought he was so smart and so rich, so he thought that he'd use his money to create world peace...I watched Carnegie try to do it and I decided that if he couldn't do it, then I'm going to leave it alone. So I don't take up those big subjects.

I like to create dormitories, science teaching facilities, stuff like that. It's a pretty modest activity, but it's interesting to me, and it's easy to do them better than most people do them. I have no feeling that I have any advantage about bringing about world peace, but I am pretty good at dormitories. So I do what I'm good at, and I suggest that all of you do the same thing.

**Question:**

Mr. Buffett has stated that he believes that income inequality is an issue that needs to be addressed. With Senator Sanders, he has built his campaign around this issues. And with so many from my generation starting to "feel the Bern", how would you address this issue?

**Answer:**

Well, that's a very good question because it's...we've had Piketty and then Sanders. My attitude is that both Sanders and Piketty are a little nuts. People who really were passionate about equality and wanted to bring it about by government action, gave us things like the Soviet Union, with all the death and agony and the poverty they have now in spite of (having equality). And Communist China, they got equality, and think of the unnecessary deaths. North Korea?

I'm suspicious for all of this passion for equality that has such bad examples. On the other hand, if you want to look at what non-equality brings us. Let's just take Communist China. Communist China had equality, meaning that three fourths of their people were dirt poor, subsistence level poor. But they had the advantage of being equal. They were all struggling to get enough to eat. And of course when they adopted private property and more property rights, and so on, what they got was living standards that had advanced by a factor of 10 or so more quickly than anyone ever had. But of course they had a lot more inequality. You have all of these rich Chinese. I think it's been a very good bargain for the Chinese to have.

In other words, I don't think Bernie Sanders understands this at all. He doesn't want to understand it. He has a religion. He's had it for 30 years. He's a Johnny one note. It doesn't matter. As an intellectual he's a disgrace. I think that we'd all be glad to have him marry into the family, but as a thinker he's...pretty bad. Now I don't think he's any worse than some of our Republicans, but at least they're crazy in a different way.

But the equality has one effect in a democracy, which Aristotle comments on, people will cheerfully tolerate considerable differences of outcome if they seem deserved. Nobody minds the fact that Tiger Woods has a big income because he's the best golfer who's ever lived. Or you find somebody who invents something wonderful, or a surgeon who's way better than other surgeons, etc , etc. But differences in outcomes that are perceived as undeserved tend to disrupt democracy. That's why Aristotle commented on it in one of his most well known observations.

And of course who is getting the undeserved money in America now? Good question. It is not Bill Gates, it is not the people who create the new companies... We don't resent their success.

I think we have a lot of underserved wealth that causes a lot of envy. And to some extent, well, I think envy is always a bad idea. I think it's also inevitable that we're going to have a lot of it. There's a lot of undeserved wealth in the financial class. In a lot of cases for doing nothing, or being counterproductive. So I think that fixing the obviously undeserved wealth of a lot of people would be a constructive thing. If you take the ordinary investment partnership, not only do they get capital gains on what for anybody else would be ordinary income, but they don't pay any income tax at all. Because it's unrealized appreciation that gradually shifted to the general partner and he can take securities out when he leaves the

business and not recognize the gain. They have enormous liquid fortunes being made on paying no taxes at all. Naturally that's resented. It would be resented even more if people understood it. But that's not very complicated to understand. And so, I think by and large, feeling unhappy with inequality...Inequality is the natural outcome of a successful civilization that is improving for everybody.

Most of these guys (wealthy individuals) are not that interested in politics. People like to talk about the terrible influence of the rich on politics. But when you're rich, you realize how little influence the rich really have.

I think that these people who are raging about inequality, like Picketty and Sanders are wrong. But I think that the people who say that the undeserved wealth deserves some attention, I think they're right. I think a huge source of the undeserved wealth is coming from the old finance.

**Question:** You mentioned Wells Fargo earlier and its culture and the reason that you bought it back in the 80's. Daily Journal Corporation owns U.S. Bank as well. You also own Bank of America and its culture is a little different. And I'm curious if the decision to buy Bank of America was driven by its low price or if you also see the compounding element.

**Answer:** Bank of America was bought through the way that we use to buy securities. It just got pounded so hard that it was selling for less than it was worth. Way less. And there's a lot in the Bank of America which is sound.

**Question:** I'm pretty excited about the prospect of self-driving cars over the next 10-20 years. It seems like the technology is moving very quickly. As a Berkshire shareholder I'm worried about the implications about the entire auto insurance if accidents, hopefully, become a thing of the past. That's good for civilization, bad for the auto insurance business. I would love to hear your thoughts on that.

**Answer:** Well you're right. If all the cars run around without drivers, it will be bad for Geico. And I don't think it's going to happen very quickly. In fact I think it's going to be quite slow. But in the auto industry...the first thing that people did when they got new wealth was (buy) more cars. I think that even if we don't get self-driving cars, that culture may be waning. Not so much in the third world, but in places like America.

**Question:** Could you publish a personal book list of the books in your library?

**Answer:** I don't want to be a book recommender. (laughter) It would be quite time consuming. So I'm afraid you'll have to (ask another question).

**Question:** A lot of people here have the ability to do well, but they don't have the opportunity to meet the right people. Ronald Burkle credits you with give him credibility when he was starting to acquire grocery stores at age 30. Who was your mutual acquaintance and how was Ron Burkle able to meet you in the early 1980s.

**Answer:** In those days, we (Berkshire Hathaway) had a lot of declining businesses and one of them was trading stamps. And our last big trading stamp customer was the company that Ron Burkle's father controlled. And that's where I met Ron Burkle. It was an attempt to preserve that customer. The last customer we had. And in due course I failed. Ron Burkle on the other hand left that occasion and did nothing but succeed. So maybe you should ask him.

**Question:** What's your view on the Unicorn companies like Airbnb, Uber, etc. Do you think those companies have such high valuations can ever go public?

**Answer:** Well, my attitude is that I have a circle of competence. And that does not include correctly predicting which new companies in Silicon Valley, or dependent on Silicon Valley, are going to succeed. So I tend to avoid the subject entirely. I've paved my way in other passions. However I will comment on one thing. Manipulated Finance.

As these venture capitalists, who are part of the finance industry, the constructive ones. These are the people who make their living more honorable than the rest of the people in finance because they're actually allocating capital to new businesses. So the venture capitalists are useful members of finance. But they don't escape their share of sin. What they've gotten in the habit of doing is creating these rounds of financing. And each new one is at a higher value. But they just sneak a little clause in saying, that nobody who previously bought into the venture gets anything until the new guys are preferred. Well that is sort of like a ponzi scheme. It's a disgusting, tricky, dishonorable thing to do. Particularly since it's obscured. And of course it's being deliberately obscured.

So even our most reputable part of finance has dirty sleazy activities creeping in. **Large**

**amounts of easy money cause regrettable human behavior. That's Munger's rule.**

**Question:** Apparently the environment that we invest in today is very different from when you started. With high frequency trading, momentum trading, and all of that, do you think that fundamental value investing is losing relevance?

**Answer:** I don't think that fundamental value investing will ever be irrelevant because of course to succeed in investing you have to buy things for less than they're worth instead of more than they're worth. You have to be smarter than the market. That will never go out of style. I mean that is like arithmetic it's always going to be with us.

Now as far as high frequency trading, that is a complicated subject. I think that high frequency traders of the world, many of whom are personally admirably and honorable people, I think they have all made contributions to the American economy like a bunch of rats do in a granary. (laughter) They're just sucking some of the resources out for themselves while contributing nothing to the civilization.

**Question:** Do you have a specific approach to spending quality time with your family?

**Answer:** Well, I don't think I want to (promote) myself as some wonderful example of family life. I did the best I could...

**Question:** Do you think that Coach Nick Saben shares qualities with Sam Walton?

**Answer:** I don't know anything about Coaching. I'm better at Ballet.

**Question:** Could you name a few people in history that you admire?

**Answer:** Well of course there's a lot of historical people that I admire. One of the advantages of being a reader is that you can consort with some of the best people who have ever lived. So that's what I do with a lot of my time. But I admire a lot of people, take surgeons who get way the hell better than other surgeons...or take some actor who gets to be the best actor in the world, and moves and entertains a lot of people. And there are a lot of people who are constructive, intelligence, generous and improve the world for the rest of us. And there are a lot of people who are good examples. And I spent some time, because he was on the Costco board for a long time, with Dan Evans who was

Senator and Governor in the state of Washington. Generally admirable, sensible, high-grade, politician. There's so few politicians like Dan Evans.

But when you do find a Dan Evans you really admire him and like him. And I think there will always be admirable people. That's what we all want to be. We all want to be admirable. **What you want to be is the kind of people, other people name in their will to raise their children if they die unexpectedly.** When a lot of people are doing that, you'll know you're doing something right. **People are very shrewd about guessing who will be good at raising their children.**

**Question:** When you were an attorney, you sold your most important client an hour a day. And I'm guessing that you spent that time reading and thinking, or did you do some other activity for an hour.

**Answer:** No, no, that was the most important client, myself, you're right about that. It was reading and thinking. The beauty of doing a lot of reading and thinking is that if you're good at it, you don't have to do much else.

**Question:** Question about fear. I was once given the advice that it's really important to conquer fear. Could you speak to your relationship with fear and whether you've conquered it.

**Answer:** Well generally I've avoided circumstances which automatically cause people fear. My son Philip is in the audience. When he was young, he had a saying, he would say, "If at first you don't succeed, well, so much for hang gliding." (laughter) And so I don't seek out fear to get thrills. I don't even seek out the appearance of fear when it's really safe. Generally I'm not a big lover of danger or even the appearance of danger. So that's not my thing. I don't think I've felt much fear for a long time. I've just lived a long time. I had fears when I was younger, but they gradually melted away.

**Question:** Question about Coke. Sweetened beverages are on the decline. Does Berkshire's ownership give Coke some leeway about addressing the declining nature of their business?

**Answer:** Well, that's an easy one. Coke for many decades, the basic product, full sugar Coke, grew every year. It was like the inevitable march of time. In recent years, full sugar



coke is declining. Now fortunately the Coca-Cola company has amassed distribution infrastructure business in a lot of other products. Coca-Cola as an individual product is declining some, instead of going up the way it always did before. The rest of the businesses are on average rising. So I think Coke is still a pretty strong company and it will be a respectable investment. **But it's not like it use to be when it was like shooting fish in a barrel.**

I guess that does it.