



**A Discussion of Mr. Warren Buffett with Dr. George Athanassakos and
Ivey MBA and HBA students
Omaha, NB, March 31, 2008, 10:00 am - 12:00 pm**

Question: What are your thoughts about the Chinese Stock market?

Buffett:

The Chinese stock market? I don't know what markets are going to do. When I was over in China they were bombarding me with questions about the market and of course you have these A shares, including Petro China, which was going public in China. Petro China and others were trading at twice the price within China (at that time Chinese people were not permitted to buy shares in Hong Kong or in the United States) than outside China. This was really extraordinary. If you knew these restrictions were going to break down it would have been great to short the stocks in China and buy them elsewhere around the world. But the Chinese stock market has 1.2 billion people waking up to the stock markets and having an investing or gambling urge. The stock market was becoming wildly popular as we know in China. Petro China at one time, based on the Chinese prices, was the most valuable company in the world, and was selling for over 1 trillion dollars, whereas Exxon was only worth 500 billion. This made Petro China twice as valuable as the largest company in the world. I have no idea why and where that many people were relatively new to the market and were very excited about stocks. You do know in the end you have to buy things on a basis of when you get a value for what you pay. This seemed to lose relevance in a market like China. They had a situation like that in Kuwait 20 years ago. When a whole society, and a rich society, (certainly far richer than 15 years ago), a huge market opened up for them. I have no idea whether the people get friendlier or crazier. That is not my game. My game is simply to buy something worth a dollar for 50 cents. Then if they go crazy in the right direction it helps me and if they go crazy in the other direction I just buy more. My job is to take advantage of craziness. And that goes back to Ben Graham's Intelligent Investor chapter 8. If you are going to invest based on value with a partner (lets say Mr. Market) - let's say you each own half of a McDonalds stand. Every day he quotes a price at which he either wants to

buy me out or sell me his interest. If he hears a bad rumour he low-balls it, so I buy. Other days he is all excited about some Burger King burning down and seeing some line ups and decides to give a high offer, so I sell. If I'm going to have a partner like that what kind of partner do I want? I want a psycho. The stupider he gets the better I am going to do. I don't want some cool, calm rational partner. I want somebody with huge ups and downs - a manic depressive. Basically that's what you get in the stock market some times. As long as you realize he is there to serve you, and not to instruct you, you can make a lot of money. You can't listen to Mr. Market and think he must be right. Only listen to what he says in the context of: when this guy gets way out of line I am going to wack him. And basically that's what you get in the stock market. In China you can't tell how far the markets will go to extremes. You can't tell that, I have no idea where the markets are going to go tomorrow or the next day or the next month or the next year. I do know that in the end stocks tend to sell for what they are worth. At least in the range of what they are worth. They go all over the place in between - but tend to true value in the end.

Question: How can you make money without investing a lot of money? Is it hard to raise money?

Buffett:

Yes, well I didn't raise money. I bought my first stock when I was 11. I bought 3 shares of Citi Service Preferred. I spent 5 years saving \$120 bucks. I saved money from when I was 6 until I was 11 and by that time I had enough money to buy 3 shares of a stock. I read many books about investing by that point. And I kept buying and selling stocks. I wasn't anchored in any philosophy, for example there was a famous book by Edwards and McGee on technical analysis. I was very interested by the statistics in that book. I thought about many different ways of investing. By the time I was out of school at 20 years old I had made and saved \$9,800 dollars. The first stock I bought where I invested heavily (I had invested three quarters of my net worth) is a stock now called Geico. I got very excited about that company. I just kept looking and I didn't worry (I was always having fun - even now). You can have fun working with small sums or big sums - I like playing the game. I didn't have to get rich in order to have a better life or for my kids to have a better life. In 1954 I went to work for Benjamin Graham. In 1956 I came back and had about \$175,000, at that time I thought it was enough to live the rest of my life. About 2 months after I got back my 7 investors were not happy. They would not trust the gut instinct of someone as young as I. What does a 21 year old know about managing money?

It was an inhibiting factor for people to know what they own. I said to these 7 people we would form a partnership and the money would flow in the exact same way except they wouldn't know what they owned. I would treat the money as if it were my own. I wouldn't get paid unless they did well. That's the form I elected. And then I thought that was the end of it. And then people started coming along. By 1961 I had 11 partnerships. I had no employees and worked out of my bedroom. I wrote all the cheques so every

time I would buy a stock I would have to write 11 cheques to split it up into 11. I had to file 11 tax returns. In 1962 we started the company. That is the history of it. But the history is not of a master plan. The history is doing what you like to do every day and figuring out if people want to do it with you, what is the most logical way to do it. And that is the way we run Berkshire Hathaway. Berkshire Hathaway is run as a partnership.

What can I possibly do with billions and billions of dollars? I don't see the fuss in having 6 houses with greenskeepers; I don't see the fuss in having 20 cars in the garage. If you think about it you are living better than John D. Rockefeller. If you want to watch the Super Bowl you just turn on the TV and watch it. If he wanted to see the World Series it would take him a long time to get there, and he would not have air conditioning and that type of thing. The problem is not getting rich, but finding a game you enjoy and living a normal life. The most important thing is finding the right spouse. If you make the wrong decision on that you will regret it, there is a lot of pain involved, but if you have the right spouse it is just wonderful. What qualities do you look for in a spouse? Humour, looks, character, brains, or just someone with low expectations. The most important decision that you will make is that. If you make that one decision right I will guarantee you a good result in life.

Question: With the abundance of stocks and companies out there I was wondering if you could discuss the process you use to narrow it down in search of a value investment.

Buffett:

With the situation we are in now companies don't change that fast. I try to think about those companies. I hope their prices change a lot because then their price to value may change significantly. One source I use is Value Line. Every 13 weeks they value thousands of companies, so I go through their weekly stuff (it takes 15 or 20 minutes) and hope that it jogs my memory. When you get into currency or bonds and things like that, it's essentially reading or seeing unusual things happening. Let me give you an example. If you believe in efficient markets I will destroy that belief. About 7 or 8 weeks ago you may have read about how in auction rate securities the weekly auctions were fake. In other words, these were instruments backing up money market funds (\$330 billion of tax exempt funds). People had their money in what they believed were demand deposits and the way they could get out was that every week there was an auction of underlying securities where anyone could get out and somebody else get in. They had limits on the interest rates they would pay. Nobody ever thought they would hit those limits. They were past those limits. If the limit was 4% then the issuer would pay 4% and nobody was willing to buy at 4%. So the people were stuck in it. The underlying credits, in 99% of the cases, there were no problems with the issuer. The problem was the whole financial system was under strain and nobody wanted to come in. Incidentally, many of you are from Canada and this is similar to the commercial paper that was frozen. People thought they had something that they could get out of tomorrow morning and couldn't. Here in the US we had hundreds of billions of dollars that people were locked into these auction rate securities. So what happened? 6 or 7 weeks ago we started bidding on these things.

That caused me to start thinking about it. This doesn't add up to lots of money, but we started buying these issues and today we have something like 4 billion in things that 7 weeks ago were paying 2% and now are paying 8%. This is when short term treasury bills are 1%. So this is crazy, but the really crazy part is that every day we get these bid lists from Citi, Merrill Lynch, JP Morgan of all these different options. Sometimes we see that on different pages there will be the same issuer, lets say the New York Port Authority, because, in fact, they are different issues. Sometimes we put in bids at an 8% basis and someone else, just because they are on another page, gets them on a 5% basis; now that is huge. That can't happen if markets are efficient. This is not some little market anomaly, this is a \$300 billion market, with a 300 basis point spread on the same security. 8 weeks ago I would not have dreamt that this would happen - and then it happened. And it is lasting longer than I thought it would.

Question: What do you make of the current malaise in markets and the economy?

Buffett:

I think we will be in a recession for a while. You had a situation where in many parts of the country, in large markets, housing prices doubled or more (for condos) in a short period.

After it doubled people could still borrow 90% or 95% or even sometimes 100% of the purchase price - and that is not good for the economy. If you go back to 2006 there were 4 trillion of mortgages originating in the US. Just think about how much that was feeding the economy. We have now created this new debt, and many people had bought that debt through securitization even though they didn't actually know what they were getting into. So now instead of having this several hundred billion or more flowing into the economy, everyone is trying to de-leverage. The banks are trying to deleverage, households are trying to deleverage. One thing that you can do is shower people with money. Ben Bernanke actually wrote about that before he was the chairman of the Fed. One thing to remember in economics is that you can't do one thing in economics. There is always other effects that come out of it. Sometimes you can foresee them and sometimes you can't. I don't know how to fix the recession. I do know that if you deleverage the economy it is a very painful thing. If you get through this you will have an inflation free economy. We did not create a housing boom in 3 months, we did not create a financing boom in 3 months, we did not create the private equity boom of last year in 3 months. The banks are so loaded with paper that they were competing like crazy to be in the latest private equity leveraged buyouts. If you look at any of the major banks like Citi or JP Morgan's 10-K's they have loads of debt. Banks have loaded up on that sort of thing and are trying to get rid of it. They mispriced risk in a big way, as did lenders in residential mortgages. These people had no idea what they were doing. The loans were based on ratings and the ratings were based on loans. I admire Ben Bernanke and Henry Paulson because they have a very tough job. I have a job swinging at easy pitches. If you are in a public position you don't get to pick the pitches you have to swing at and they are the toughest ones. That is exactly the antithesis of what I do in my business and I admire

people that put their reputations on the line and work 18 hours per day. I don't think I have the right ideas to fix this, but if I do I will convey them. It is not an easy problem. Incidentally, it is not the end of the world either. If you look at the twentieth century the Dow went from 66 to 11,000. The standard of living of the average American went up 7 to 1 in real terms. You have had centuries where people at the end of the century are living just like people were at the beginning of the century. During that period you had the great depression, the two World Wars, the Cold War, Vietnam, you had a flu epidemic, you had all kinds of recessions. Capitalism does have a tidal wave of prosperity, but it gets interrupted when people do foolish things.

Question: In the past you have talked about population concerns. What do you think is the greatest challenge for our generation?

Buffett:

The challenge is somewhat of an insolvable problem, which is why it is a challenge. The ultimate problem is weapons of mass destruction - and we do not know the answer. I would give all the money I had philanthropically to attack that question successfully. I could use a little money in that direction, but money is of very limited use in attacking that problem. That is why it is a huge problem. The largest problems in society are not unidentifiable. They are the ones that defy intellect. Weapons of mass destruction, at this point, overshadow everything else. At this point we have 6.5 billion humans and we have a significant percentage that are psychos, megalomaniacs, or religious fanatics. They are limited in 3 ways: knowledge, deliverability, and materials. They have the intent which is the fourth factor required. Knowledge is out there and, unfortunately, can spread and grow. The materials are the trouble point, particularly in the nuclear stuff. There is a high percentage chance that within the next 50 years something nuclear can happen. If you think about it if people are willing to kill themselves for a cause, like the 19 people who killed themselves in 9/11, it can have great damage to society. Just think about 10 people going into a random movie theatre on a Saturday night and blowing themselves up, that would be the end of the theatre business. Weapons of mass destruction, to me, seem like an unsolvable and even almost unstoppable problem. What we want to do is lower the probabilities, and that means controlling the materials better. That will have a huge advantage to the whole world.

Question: What is your favorite fiction?

Buffett:

I don't read fiction. I love reading biographies. Charlie (Munger) has probably read more biographies than anyone in the world. Gambling is a huge human characteristic. It is more fun to watch a Sunday night football game if you have money on it. I always thought that when the internet came along there would be major successful businesses in it - gambling and pornography. Gambling is an overwhelming urge for a significant number of people. Gambling won't go away. The more available we make it the more people do it.

Question: Why don't you do philanthropy yourself and why would you rather give money to others who do?

Buffett:

What I do is basically a philanthropic activity. I establish priorities, like what are the most important human problems that do not have a natural funding base and do not get their money someplace else. Over time I have done it on a larger and larger scale because the funds became larger. I decided a couple years ago there were 5 foundations that were in sync with my ideas. I had enormous trust in the people who were running them to carry out the missions with integrity. I had more fun doing what I did and creating more funds for them to use. This goes back to Adam Smith when he says in effect, we want Jack Welch running General Electric and we want Mike Tyson fighting boxing matches and not the other way around. There is a certain merit to that with me. There are all kinds of things I don't do myself because there are other people that do them better. I decided that there would be people better able to distribute the money than I would be. When people came to me originally in my partnership they said to me "you are better at investing money than we are". I am saying to these foundations that they are better at giving away the money than I am and I know they are giving it away in a good way. Of these 5 the largest is the Bill and Melinda Gates Foundation, where I have 2 people, one of whom is 52 the other is about 43. They are smart, they are young, they are incredibly energetic, they devour information about the subjects they are working on, they bring their own money to the party, and they are looking to do the same thing that I want to do. So if I can get them to do the work I am all for that. I'm doing exactly what I said I was going to do. Just check the Berkshire Hathaway website for the letters. I want them working on big problems that do not have natural funding. For example a non-profit radio station will get funding by someone wanting to change the call letters to their initials or something like that. People like to have their names on things and I am all for it.

Question: What are your thoughts about politics and investing? Some people perceived your investment in ISCAR as taking positions in the Israeli-Palestinian conflict. How do your investments impact how people perceive your positioning?

Buffett:

In general there wouldn't be any political statements made by investors. Take for example my stake in Petro China, it is not an endorsement of all Chinese policy, similarly to my investment in American companies, they have nothing to do with politics. ISCAR probably is something special. It is one of the most, if not the most, profitable businesses in Israel. It is almost symbolic of Israel for what it has accomplished. I couldn't be happier. I didn't buy it for that reason, but I am very comfortable with that being attributed to it. I got a letter in October of 2005 from Eitan Wertheimer, who with his family owns ISCAR. He said there are reasons why he should sell this business and that you are the only person in the world who we want to buy it. He said if you are interested I will come over from Israel. I emailed him. I get a lot of letters, but this letter meant

something to me. I said for him to come over. We hit it off. It was everything I thought it would be and more. He tried to get me to go to Israel to see the operation there before I bought it. I knew it would be wonderful, I just thought I would pay more money if I saw just how wonderful it was so I didn't go. Then we bought it. I think Israel is a remarkable country, and particularly that these people are remarkable people. I promised Eitan I would go there afterwards, so I went a few months later. I couldn't have been more pleased with everything about it. It is a truly remarkable company, family, and management. I am very proud to be associated with them. It is one of the most remarkable businesses I have ever seen. It was built from nothing. It is only 8 or 10 miles from the Lebanese border. The only thing that was brought to that mountain top was energy and integrity, human qualities. I didn't do it because of that, but I am very happy about it.

Question: Can you comment on the role of securities regulators in the market?

Buffett:

It is enormously important to the market and the way the market works. I will give you one cautionary illustration in terms of regulation. Fannie Mae and Freddie Mac are 2 of the most important institutions. You might even argue that they are the most important, because the federal government is behind them. They do things that couldn't possibly be done in terms of leverage and other things. The federal government cannot walk away from Fannie and Freddie. Recognizing that they were owned by the government, and because of this quasi governmental character, Congress has always had significant oversight over them – telling them what they can do and what they can't do. To maintain the integrity of these institutions they set up OFHEO, which was to only have one job. It was to look at these 2 companies. OFHEO had over 200 employees who went to work every day year after year and a few years ago we found that both of them had some of the largest accounting discrepancies in the history of American business. And probably a fair amount of actual fraud. OFHEO then released a report blaming everybody except themselves. That was their function. If you go to their webpage you will see that that was the reason for their existence. So I have great doubt if I was the head of some huge agency, with some of the smartest people I could find working for me, if every day I was sent the total positions of JP Morgan, of Citicorp, of Merrill Lynch, all the big 10, every single position, I doubt I could tell what was going on. I faced that question when we bought Gen Re in 1998. They were a medium size derivative company with 23,000 plus derivative contracts on the books. There was no way in the world I could get my mind around that book at that time. In 1988 and 1989, Charlie was on the audit committee of Salomon Brothers, which was then a big player. He would spend 5 or 6 hours a meeting trying to figure out what was going on, and the truth is he couldn't do it. Although he did find, for example, a mis-mark of \$20 million on 1 contract. This is when there were tens and tens of thousands of these things. So I think the job of regulating is extraordinarily tough in terms of these institutions. When there are these enormous advantages to these proprietors (such as Bear Sterns) it encourages leveraging like crazy, and you can do it using instruments that don't even show up by looking at a balance sheet. I think it is a

very tough job, but you have to do it. In the end if the institution goes down, the Secretary of the Treasury and Chairman of the Fed just go on to something else. When Citi found out that they couldn't play because of capital restraints on the balance sheet they figured out ways to do it off the balance sheet – and that is where SIVs come from. Who the hell even heard of SIVs just a few years ago? \$80 billion just with Citi. They had the sort of thing they called liquidity puts, and that's what kept the SIVs going. What is a liquidity put? I don't think that term existed 5 years ago. I think some CFO thought of it when some reporter called him and asked what the hell these things are. What is a SIV other than parking? We had one contract that was due in 100 years. In 100 years someone was going to call the other guy and say lets settle this thing. Either you owe us or we owe you a million. There are only 4 big accounting firms that are definitely cross auditing all kinds of counterparties. I guarantee you that these auditors are certified or attesting to, the validity of figures where party A to a derivative contract is valuing it much differently than party B. And both A and B are being audited by the same firm. I don't know any way around it. It has gotten really complex. I'm not sure what a regulator can do. There is always some room for improvement in the present system.

Question: What is happiness? Are you happy?

Buffett:

I am so blessed. I get to do what I like to do with people that I love. That is happiness. I am happy day after day after day. How could I be any happier? Someone once said success is getting what you want and happiness is wanting what you get. And that's what I see in people as I look around. The only thing I have to do in life that I don't like doing is fire people occasionally – very seldom. I would pay a lot of money if I didn't have to do that. But everything else I like. I'm doing what I like doing. I could be playing shuffleboard, I could be in Vegas, but I'm doing what I like doing. There is a woman here in Omaha who is a Polish Jew. She was in Auschwitz, her family was in Auschwitz. One would be in one line, another in another line. One of them didn't come out. She said this to me "Warren, I am very slow to make friends, because the bottom line when I look at somebody is would they hide me?" Now I know people my age that have dozens and dozens of people who would hide them, Tom Murphy for example from Berkshire. I can tell you about a whole bunch of others who are worth billions and billions of dollars, who have schools named after them, who nobody would hide them. Their own kids wouldn't even hide them "He is in the attic, he is in the attic". That hiding is just a metaphor for love. If you have people that you want to love you, that do love you. If you leave out illness I have never found anyone who has dozens of people who love them, or would hide them using my metaphor, who is an unhappy person. I have seen all kinds of people that they are miserable. They have what the rest of the world may think is important, but they don't have anybody who gives a damn about them. Being given unconditional love is the greatest benefit you can ever get. The incredible thing about love is that you can't get rid of it. If you try to give it away you end up with twice as much, but if you try to hold onto it, it disappears. It is an extraordinary situation, where the people who just absolutely push it out, get it back tenfold. My friend Tom Murphy that I mentioned before, if he does 20 things for me he doesn't expect even one back.

There are other people who are just all the time trying to get more out of you than they deliver to you. It's a terrible behavioural set to get. One of the things I use with students is I ask you to imagine that I am going to give you an hour and in that hour you have to pick one of your classmates to own 10% of for the rest of your life. And then when you write that person's name down I will ask you to list the reasons or qualities that caused you to pick that person. You won't necessarily pick the person who is first in your class or the one with the highest IQ; you will pick out the human being that is going to be effective. You are looking for people with qualities which pull people to them rather than push them off. And then I ask students for the real fun part, to sell short another one of your classmates. Who do you look for? You don't look for the person who is last in your class, you look for the person that has a 400 horsepower motor, but is only going to get 20 horsepower out of it because he is going to turn off everybody that he works with for the rest of his life. On the one side you list the qualities of the person who you want to own 10% of and on the other side you list the qualities of the person who you want to short 10% of. You will find that these are not things you are born with like the ability to kick a football or sing a high C; they are qualities that you actually generate for yourself. These are things like generosity, humour, forgiveness - all of the qualities that you admire in other people. If you say to yourself which of those qualities can't I have, the answer is none of them. Then you look at the qualities which turn you off in other people. If they turn you off of other people, if you have them you will turn people off of you. Those qualities you don't have to have, you can get rid of them. You can do it if you are your age, you can't do it if you are my age. Basically these habits are built into you, by the time you are 60 it is too late to form them and they are too heavy to be broken. The thing to do is look at that list and say I want to be like the one I want to own 10% of. I can have these and I will get rid of the ones that turn me off of other people. It's not complicated. The person that does that will be someone that is happy I guarantee you and the person you short 10% of will be an unhappy individual and they can't do anything about it after a while. They develop a reputation and a pattern of behaviour. I mean you see it in the business world all the time, but you see it in other places too. It is such an elementary proposition. Who doesn't like to be liked and want other people to want to work with them? You know the qualities that cause that. Who does not want to avoid being a person they can't stand. And there are people like that. Is it because they are less intelligent? No, they electively develop habits of behaviour that are disastrous over time. Particularly, this gets important when you have children, because you are the teacher for that little tiny thing. The thing about children is that there is no rewind. You can't do it over again so you have to do it right the first time. If you end up with your children loving you, I don't think you will be an unhappy person. If you have a family that is totally alien, and I see that all the time, often in rich families, I don't see how you can be very happy. There used to be a program called Lifestyles of the Rich and Famous, where they would show you all of these big houses, but that isn't the real way the rich are different. The real way the rich are different is that they can be so much meaner if they want to be. If you get mad at your brother in-law and you are poor you just don't go to Thanksgiving dinner, if you get mad and you are rich you have lawyers that go to work at 7 in the morning to cause you trouble, you have private detectives, and all kinds of things. So you see this accentuated behaviour that can be so disruptive. Many years ago a woman called me from a big publishing family, they are all rich in the family, and they

were in a huge fight. She called me up and I had never met her and she said “I’d like you to come down to this town, you understand newspaper properties and we would trust you to work out a solution to our families problems with regards to this very valuable property”. I said to her I just have one question: do you want to win or do you just want your brother to lose? She paused for a long time and said don’t bother coming. I mean she wanted pain for him. If you are thinking about how to cause pain for somebody else rather than creating a situation that benefits yourself you are going to get a terrible result over time. Everybody here, absent some terrible illness or tragic death, has a passion for happiness. A spouse is the most important thing. It is important to have a job you love, its not important how much you make at it, but it is important to have something that just causes you to jump out of bed in the morning. I took that job with Ben Graham. When I finished Columbia I said I would like to work for him and I will work for nothing. He said you are overpriced. I kept pestering him and so he finally gave me a job in 1954. I found out how much money I was making when I got my first pay cheque. I never asked the question. I just knew I was going to get treated fairly, and it didn’t make a difference anyway because I wanted to jump out of bed every morning excited about what I was going to be doing, and I admired who I was going to be working for. That’s the way you should feel. Not that you shouldn’t pay any attention to salary. You want to be turned on in life. You don’t always want to think you are going to do something later on that is going to make it work. I had one guy from Harvard pick me up from the airport. He was driving me over to Harvard Business School where he was a student. I started asking him about himself and he said he was a student there who graduated and got his CPA and now is back for his MBA. He said he was thinking about getting a job in management consulting next, because that would be the perfect culmination of his resume. I asked him how old he was. He said 30. I said 30 and you already got all this stuff and you are still thinking about spending another couple years doing something you don’t really want to do because it will make your resume be even better? I said that sounds a little to me like saving up sex for your old age. You really want to go to work for an organization or a person you really admire. I am doing something that has no financial meaning to me at all. The reason I am doing it is because I enjoy it, I am reasonably good at it, and I am surrounded by people that are great. I don’t have to associate with people that cause my stomach to churn. If somebody comes along who wants to sell me a business and I wouldn’t enjoy being their partner there is no reason to do it.

Question: The pharma industry is a very risky industry. I was just wondering, how do you pick a pharma company?

Buffett:

The question is how do you pick a pharma company when you haven’t got the faintest idea what your competitor in 6 or 7 years will be offering. You are better off in that business by buying a group, if the group is reasonably priced. They will be using some drugs for sure 5 years from now. In dollar terms you don’t know who the winners will be. I know in my own case I can’t pick winners in the pharma industry. I can decide the pharma industry as a whole is a pretty good business with good aggregate returns on capital. Purchasing a group, unless you are really an expert in the field, makes a lot more

sense. I don't care who has a hot item in the pipeline. It will likely be selling for more than a company that is coming off a patent in a year. The price tends to account for what is in the pipeline anyway. I don't know which company but I know there will be more drugs sold on aggregate 5 years from now.

End of Q&A

Buffett: Let's now go have some lunch.