



## **Notes from the Meeting Dr. George Athanassakos and Ivey MBA and HBA students had with Mr. Warren Buffett**

**Omaha, NB, March 30, 2012, 10:00 am - 12:00 pm**

**Q:** *Since you have been an investor for 60 years, how have your principles changed over time?*

- The principles of value investing have not changed from the teachings of Ben Graham until now.
- *Aesop, the Greek writer*, once said that: "a bird in the hand is worth two in the bush". I think that this is not always the case. When valuing a business we should think of it as "deferring consumption and laying money out now to get more money back at a later date"- i.e. the two birds in the bush. There are two major questions to be answered: 1). How much money will investors get back and 2). When will they get it back.
- What I seek is certainty about the pay-off, make sure there are two in the bush. The way I deal with certainty is to find companies that have historically great returns and earnings, leveraging on a competitive advantage.
- For example Coca Cola was created in 1886. It was created to treat headaches, but the inventor coincidentally came up with the product that tasted good and developed it into drinks today. The point is, I can see Coca Cola ten years from now. It has been there for a long time and will continue to do so. Even in ten years, it's not going to be too much different from today. It has operated in 200 countries and sales are growing. There is certainty in the business.
- With Coca Cola every penny increase on the price results in billions of increase in earnings. What's an extra penny for a Coke that has become a life habit of million consumers around the world?
- The principle of investing is to invest in the certainty and you know you are going to have two birds from the one you put in.
- On the other hand, in the dot com mania, people invested in companies with no previous or current earnings, thus uncertainty is high.

**Q:** *Explain your vision when you were young and your motivation.*

- I always related to painting a painting. Enjoy what you are doing and then if the performance is good it is even better.
- My father taught me the importance of having an inner scorecard and try in life to satisfy it. This will help you follow things that you enjoy doing.
- Look at your classmates; select the one to "buy" with the characteristics that you like and the one that you would "sell" that s/he does not appeal to you as a

person. Then write down these attributes and you will realize that these are not given in birth but developed in life. Write them down and follow them.

- If you were given for free any car of your desire, what would that be? There is just one catch and only one condition. It will be the only car you will own for the rest of your life. The car is a parallel to your body. You must take care of it, give it the best fuel, keep it protected, don't abuse it, because it is the only one you will have for the rest of your life.

**Q:** *How should businesses balance social and fiscal responsibility?*

- Do not do anything that is anti-social and illegal.
- I once let shareholders decide where they wanted donations to go. However, it created an anti-social reaction in some communities. So one should take care that it doesn't affect other people.
- At the end of the day it is a personal choice and but it is limited by the shareholders.

**Q:** *After the financial crises, the government took various measures such as Dodd Frank Act to decrease risk in banking sector. Do you think today's world is a safer place as a result of those measures?*

- The U.S. is a safer place but EU is not. The U.S. economy is in a much better shape than EU which was very close to immediate liquidity crises at the end of last year. Even though EU is in a mess today, it will get past this. People and their desires would not go away. In 10-20 years, they will start consuming again.
- In U.S. the things that caused problems few years ago don't exist anymore but bubbles will still come in future as we will have new problems then. That is the nature of capitalism. The trick is to not get too excited when everyone is and try to explore the opportunities that these bubbles will bring.

**Q:** *What are your thoughts on the Rise of the Chinese Economy – and when will China catch up to America in GDP?*

- China has a population which is four times that of U.S. and is just as smart and just as hard working. So eventually China will overtake U.S. One hundred years ago, the U.S. had a population of 4 million, EU had population of 75 million and China had 290 million people. But in 100 years, US captured 25% of the world's GDP as they knew how to unlock human potential. China is now following U.S.'s example and is learning from the U.S. on how to make things happen.
- China's progress is not bad for U.S. and rest of the world as the world is not a zero sum game anymore. The better China does over time, the better America does over time.
- There is a lot of anti-Chinese rhetoric today in the US. However, we have much in common with the Chinese, and those in India. A co-operative world will be better for everyone.
- The US should not lecture the world on equality issues, as we need to look in the mirror (Black people earn 3/5ths of a white person, women were not equal citizens until the 1920s). Watch out for anti-Chinese rhetoric from our American political representatives.

**Q:** *In a recent article you talked about coming back to Omaha instead of staying on as a junior partner in New York with your mentor Ben Graham. What was your motivation?*

- I bugged Ben Graham for months about getting the job. In fact I offered to work for free and he replied, “you’re overpriced”. Jr. Partner was not attractive to me, because it’s not a long-term thing. You may get a basic salary of \$125,000, but the development after was limited. But if you can build your own dream, why not?
- I decided to live in Omaha because I like the city, the community and it’s where I call home. It’s all about what you really want to do. Living in Manhattan is expensive and you need to be rich. There is a lack of sense of community and life style, thus lack of the enjoyment of life.
- You may need to do fifty things a day in New York, but I’d rather to do some reading in my office and do 1 to 2 things a day and do them well.
- I didn’t have a real plan when I returned to Omaha, there was no master-plan when I left New York.
- It is very important to find a balance between life and work as well. Follow your heart and do something you love.

**Q:** *Student loans offer people the chance of higher education, but in the U.S. there is a trillion dollars in student debt. Some 36% of students graduate with “little sign of higher education”. Is there a bubble coming as far as the higher education trend goes? What’s your opinion on this issue and when will this bubble burst?*

- The best education you can get is investing in yourself. But this doesn’t always mean college or university. I have two degrees but I don’t have them on my wall, in fact I don’t even know where they are.
- I used to be afraid of public speaking, and I realized that I have to do that someday. I do have one diploma I display from Dale Carnegie’s Public Speaking Course and it only cost me \$100.
- Thus, I don’t think college is for everyone, one benefit is that it gives you a button. In fact none of my three kids graduated from college.
- John Mellor did research on group of students for a project. One group was sent to the beach while the other studied at university. Their results are not that different. It’s always about consistent improvement of your abilities.
- You should always ask yourself, “does this have any value to me?” I did go to university because of the expectations of my parents. When I got the offer, I told my dad, “you go”. You want to make contributions to the society while pursuing your dream.

**Q:** *Will the U.S. dollar continue to be the world’s safety net?*

- There is no question that the US\$ will lose purchasing power over time. All paper currencies depreciate. In terms of how it will fare relative to other currencies is less certain.
- Depreciation is sad because it hurts unsophisticated investors and people who trust in the government.
- Best way to hedge against the dollar is to buy a house in a growing area and take out a 30 year 4% mortgage. You are effectively shorting the dollar.

**Q:** *Are there sectors or businesses with untapped pricing power, from the ones you own and not?*

- Berkshire was originally a rayon suit lining company. They made quality product but no one ever requested to have a specific lining in their suit. Even if we were supplier of the year we could not have demanded better prices. New print was cited as another example.
- Some products or services are vitally important to the value chain of a business but there is little pricing power in them (eg. Line thread on blue jeans / printing services for newspapers)
- See's Candies was a business where we had pricing power. Our product was often used as a special treat or gift for a moment. The first time I bought See's I gave it to my future wife and got a kiss. After that, they had me for life. That's because See's is a product that provides happiness. On, Valentines Day, do you really care if a box costs \$4 or \$5? You cannot go home to your wife and tell her you got the cheap chocolates. Consumers also are not conscious of pricing one year to the next. Candy used to sell for 1.95/pound when I was young. Today it sells for \$16.00/pound. See's would always raise their prices on December 26th. I bought this business when it had \$4M in sales. Today it is \$83M. That's pricing power.
- Coke has less pricing power in North America than it once did. The North American consumer finds Coke and Pepsi substitutes. They buy the one that is selling for less, making its pricing power like that of a commodity. However, internationally Coke remains that special treat for that moment.
- You also see pricing power in efficiencies. For example Burlington Northern rail transport compared to truck transport is three times more cost efficient and competitive. Products that are more cost efficient are able to demand higher prices. Their product has pricing power because their consumers are willing to pay more to capture those efficiencies.

**Q:** *What are your thoughts on the quality and compensation of CEOs today?*

- Many of the CEOs I admire are normal human beings. They would do their job just as well if they were paid \$1 million in salary compared to \$30 million.
- However management is a competitive environment and executive pay can escalate. People tend to follow the norm and take on the behavior of those around them. Even the best can succumb to the environment.
- At Berkshire, "everybody else is doing it" has never been an acceptable argument, but maybe that's why I've only ever been put on a compensation committee once. They don't want a pit bull on the compensation committee, they want cocker spaniels with wagging tails. That way management can bring in HR specialists who will tell the committee what to do. And of course these specialists look at what everyone else is doing and try to put their client in the top quartile, because no one wants to say they pay in the bottom quartile, even though somebody has to. And in this way it ratchets up, and it's a terrible system but for now it's the only one we have.

**Q:** *Would you have had the same success over your life if you started today?*

- The opportunities are out there and the world will continue to grow.
- I would have had just as much fun I think. You should follow your passion. My passion was valuation.

- I truly believe the most important decision you can make is choosing the right spouse. So I think if I was fortunate enough to have the same two factors, those being a great teacher and the right spouse, I think I would do very well.
- Keep in mind I was also very fortunate being born in America. Winning the “Ovarian Lottery” can be the difference in life. My two sisters were just as smart as I was but never had the same attention and opportunities. If you could play the game to put your name in a barrel of 7 billion names being able to draw one out and start from that person’s life would you? Five out of 100 could be born in the U.S. Half would have a below average IQ. Some would have health problems and many not the same chance to get an education. You would not play this game. Realize how lucky you are to have these opportunities.

**Q:** *Corporations are now beginning to focus more on short-term results, what advice do you have to meet those results while maintaining a long-term focus?*

- You want to pick a place where you do not have to adapt to a culture that makes your stomach turn. Think of your career as a painting which you will never finish.
- You should look for a firm with a matching principle, and not the other way around. You should find a place where you are enthusiastic about the work, which is hard for a first job. Don’t do it for the money.
- For me, I have the job I want. We have people that like each other. You should go work for who you admire the most. You are only going to live once.
- You do not want a place where you will be judged on quarterly results. Yes, the world has become more short-term oriented. Avoid working for people who are under so much pressure that they fudge the numbers and give special incentives to improve year-end results.
- While I was on the board at Gillette, the company would go to Wal-Mart and offer discount razor blades at quarter-end to boost results. It is a terrible treadmill to get on.
- At Berkshire, I have no idea how we would do at the year end. Each does its best and we find out when the results come in. And we don’t want to consolidate month to month.

**Q:** *What are your thoughts on the Occupy Movement and similar equality movements?*

- I don’t think it’s very effective but like any other group, they enjoy the attention. However, if you go to the internet and search on BING, remember – “bing is not google” – ( just don’t tell Bill Gates I said that) and you look up the 400 highest taxpayers. You look up the most recent 400 highest earners and they had an average income of \$270M each. In 1992, the same 400 had \$45M each.
- That number went from \$45M to \$270M. In 1992, 16 of them were paying less than 15% taxes. In recent years, 30 were paying less than 10% and 131 were paying less than 15%. This is much lower than the tax paid by the average person, which is around 30%.
- As with food stamps, they create a cyclical issue. I understand the unhappiness but no one is happy with their lives. What we want is inequality of results, but

equality of opportunity. We are all a product of the people around us and the people before us.

- And you want those who got the long straw to give to the short straw. Ask someone under a white cross in Normandy if you think we pay too much tax.
- With the highest GDP per capita there is no reason 20% of the population makes a poverty line income of twenty thousand dollars. In the lower income bracket, there are 24M households with 61M people. Think about it if you had gotten a different ticket. Some people simply would not adapt to a market system because they have talents or skills elsewhere.

**Q:** *What is the most important thing you have learned in life?*

- Find your passion. You will know it when you see it. It is more important than money. You want to ask the question, “Where am I going to have most fun?” I don’t know anyone who is passionate and doesn’t have a good life.
- If you have passion for your work you will have a great life. Golfers all have the greatest lives, they don’t make the most money out of all the sports, but they have the most enjoyment.

**Q:** *Two weeks ago Greg Smith from Goldman Sachs resigned, stating that culture at Goldman is toxic. What do you think politicians should do to prevent some of the allegations made by Greg Smith against Goldman and to further protection for investors?*

- Within big organizations/firms there is always going to be people who do something wrong or say something bad. Firms could try to minimize that with reports and letters to employees that promote the firm’s values and principals.
- I have 270,000 people working at Berkshire and someone today is doing something illegal.
- My letter to employees is short and the main message is “Never to take reputation away for money” or “Do not do anything that will put you on the next day’s newspaper cover.
- Holding information on commercial transactions is legit. This is how business works, each side has different wants and dos.
- In terms of the firms’ culture, nothing has really changed in the last 20 years that would require action, on the public or private firms.
- I found the article somewhat inappropriate, and there is no real need for major legislation changes, but there should be consequences to those who are making decision with significant social impact.
- CEOs of “too big to fail” institutions should have a downside risk when the institution fail, and not walk away with huge proceeds.
- After the Dodd-Frank reform and the aftermath of 2007, the US financial system is solid. Europe on the other hand has not solved their problems, both banking and sovereign ones.
- No matter what the regulation is, there is always going to be bubbles and panics, that is the nature of capitalism, to overshoot, to be overoptimistic, but this is the time when you can get rich.
- You can’t have everyone do nothing they shouldn’t do. I tell my managers that we have all the money we need, and never to trade off reputation for profit, and many other people who run businesses share my view. However, in a

large organization like Goldman Sachs, you can't expect perfect behavior from everyone.

- I have never seen questionable activities from any of my financial advisors, and I don't think Greg Smith's view is an accurate reflection of GS.

**Q:** *Thomas A. Edison said, "Opportunity is missed by most people because it is dressed in overalls and looks like work". Are there opportunities nowadays?*

- Hard work never killed anyone, but why take the chance? Today's society is hugely wealthier compare to what it was 50-60 years ago. The trick to be successful is to find something you like to do in life.
- On my honeymoon I travelled out west. When I visited the casino and saw all these smart well-dressed people participating in a game with the odds against them, it was then that I realized I won't have a problem getting rich!
- Nowadays there are even more opportunities, we are living in a wealthier society, just think of the great development we had the last couple of decades.
- The luckiest person in the world is the baby born in US today, than any other time.
- The internet is a magnificent resource and it's free. I love my personal jet, but I would give it up first before I gave away access to internet.
- Think and measure your life versus the life your parents had. The world is no way a zero-sum game.
- There is a lot more opportunities today than it was many years ago, and young people today will have a lot more opportunities than young people yesterday.

**Q:** *The key to your early career was essential information arbitrage. Given the changes in the world and that information now moves at the speed of light, how do you continue to have such great successes?*

- People have better information now, but they still act irrationally.
- When I took my first job as a security analyst there were only two sources of information on public equities; the Moody's manual or the S&P manual. So I would literally spend all day looking through this book page by page, looking for undervalued securities.
- I found a company with around \$13/share in earnings, and was trading at \$22. So at a 2 times P/E it was a great buy. But there were only 400 shareholders and I couldn't actually buy a piece of it. So I went to the town where the company was headquartered and ran an ad in the newspaper to buy shares.
- Sometimes you have to work a little bit hard to get the good deals. And looking through the Korean stock manuals I've found some of these same opportunities today. But ultimately, the key to success is emotional stability.
- You don't need a high IQ to get rich.

**Q:** *Explain your overall investing strategy*

- Invest in equities slowly over time. And invest in yourself. Enhance your own talents and weaknesses. Specifically oral and written communication skills. And look to buy companies that will go on forever, like CocaCola. But the key is to buy equities slowly over time, and don't try to time the market. For the more serious investor, buy equities strategically, opportunistically.
- And go all in when you can, and when there is a good deal. I had a limit in my fund on the amount I could put in to one investment.

- There was a fantastic opportunity so I approached my investors and told them I wanted to increase that amount. I ended up putting 75% of the fund in that investment and it worked out well. And I'm sure I will do it again. Don't use leverage, and sit on cash if there are no good investment opportunities.

**Q:** *How have your strategies changed with the advent of the internet?*

- I always say buy what you know, and focus on your circle of competence. It doesn't matter how big the circle is, but you have to know the perimeter.
- Charlie and I met with Bill Gates in the early internet days to discuss commercialization and how we could make some money from it.
- Gates knew the technology, and we were generally business minded. So we met and sat down and spoke about what we could do, and about the future of the internet. And after 3 hours nothing came from it, not once did we talk about anything like Google or Facebook. Because you just can't tell where the internet is going.
- So later on someone came up to me and was talking about the internet and how it's going to change everything. So I asked him more specifically what will it change? Everything!, he replies. So I ask, will it change if I buy gum? Well....no. Will it change what brand of gum I buy? Well....no. So I said, okay I'm going to buy gum, and you buy the internet. Focus on your circle of competence.

**Q:** *On the Quantitative Easing and zero interest rates. Is there a benefit for the economy in the long run?*

- I've never heard before the crisis the term Quantitative Easing. It is monetization of debt.
- We should all be thankful to Uncle Sam, because after 2008, he did the right thing. They had the will to pour money and they couldn't do it better.
- The greatest economist of all times said: "If money isn't loosened up, this sucker could go down" *George W. Bush*
- But, there is an issue when you are spending more than you are earning, caused by the huge stimulus. Still spending is 9% of GDP more than earning.
- I wrote an article in August 2009 in the NY times. "Problems with stimulus" Continuous huge stimulus, lots of consequences will be delayed until future years. Bernanke still has the pedal to the metal. If he does this too long there will be terrible effects. Setting the stage for inflation.
- Inflation is like a venereal disease. You get it and you don't realize it for a while and the curing it is painful.
- Bernanke, who is the right man in the right spot, knows that but he suggests that the economy is still not vibrant enough.
- But we should not do it (interest rates close to zero) for too long, we maybe already overdoing it, I don't know.

**Q:** *What is your perspective on the current situation in Europe?*

- In US, the Fed has the power to make the decision and act on them.
- Giving up the ability to print money with no alignment in legislation, taxation or culture is imprudent.
- In US, you can call the FED. In Europe there is no one "number" to dial.



**Q:** *What makes a good value investor and how different are value investors from other professional investors?*

- Value investors always take a long-term perspective, we want to think we are superior and are not concerned about getting rich tomorrow but over a period of ten-years instead.
- Value investors are not concerned with getting rich tomorrow. People who want to get rich quickly, will not get rich at all. There is nothing wrong with getting rich slowly.
- Remember we both sleep on the same mattress and eat the same food
- Always remember to have a lot of fun, you may not be able to buy as much, but your life will be pleasant. I know lots of people who are not rich in financial terms but they are still happy. I know plenty of unhappy rich people.

**Q:** *Given your success and the success of many value investors, why not all investors follow this investment strategy?*

- I don't know!
- It is not about high IQ.
- It just seems not to resonate with some people and talking about it or showing them the performance/results won't help. They just don't feel good about it.
- I am also puzzled by why value investing hasn't caught on. I mean, what other type of investing is there? You want something other than value? But the thing is, people just don't want to believe. They elect things that are emotionally satisfying. Even if you show them the results, they still don't believe you. However, eventually proof comes through results.

**Q:** *Are there any institutional constraints in large financial organizations such as mutual funds companies to becoming a successful value investor?*

- There have been examples of outperformance under legal constraints of mutual funds for a long period of time, following the value investing philosophy: Peter Lynch (Fidelity Investments) or Bill Ruane (Sequoia Funds).
- When I started my partnership, I chose not to have constraints, but I did inform the partners that I won't invest more than 25% in a single security. In 1961, I wanted to overrule this constraint to invest heavily on American Express and communicated this to the partners, without informing them about which security. I invested almost 40% of the entire portfolio.
- Under legal institutional constraints, people can still engage in value investing, a smart investor is one who does well with their constraints.

**Q:** *What are the key skills, competencies, and behavioural traits that you look for while hiring someone in your team?*

- First and foremost I look for individuals who are humble and in general good human being. Neither grades nor the name of school the potential hires went to are important in my hiring decisions. I am very keen in knowing potential hires background, family, and motivation. Interest in finance and value investing is good, however someone with intellectual curiosity can learn the profession.