This is an unofficial transcript of Warren Buffett's three-hour March 3, 2014 "Ask Warren" live appearance on CNBC's "Squawk Box."

BECKY QUICK: The ruble is at an all-time low versus the dollar. It fell drastically today, not only against the dollar but also the euro. So investors are sitting up and taking notice. The-- MICE index in Russia was under quite a bit of pressure as well. So-- the-- it may not be playing out by more than just 150 points right now in the U.S., but there are some major moves happening in markets around the globe as investors try to figure this out.

Again, perhaps no better investor to sit down and speak with today than Warren Buffett. We are here in Omaha because-- Berkshire Hathaway's annual letter-- Warren Buffett's annual letter to the shareholders went out on Saturday morning. And, Warren, we've spent some time digesting-- a large annual letter.

WARREN BUFFETT: I get paid by the word.

BECKY: Yeah. So-- a very hefty annual letter that gives people a lot to think about. As you do every year you laid out a lot about your thoughts about investing in general-- and taking a look at the markets. And I would ask you for your macro view on the markets. But in your letter you pointed out that you don't give much credence to people offering macro views.

BUFFETT: No. No, I-- I've been buying businesses and stocks for a lot of years, stocks for-- 71 years and businesses for almost as long. And-- I've never really made a decision based on macro factors. If I find a business I like-- I buy it. I mean, the first stock I bought was in the spring of 1942. And I will tell you, the macro factors were not looking good.

You know, we- were-- it—was right after Pearl Harbor and we were getting clobbered-- in the South Pacific. And-- the war did not look good. Now, I think almost every American thought we were gonna win the war, but when I bought my first stock I spent-- I went in 100%. I spent-- all of my $120. I was not doing it based on headlines. I was doing it based on what I was getting for my money.

BECKY: But when you did that, when you bought into it, you say you don't look at macros. I can think of times from the past when you have looked at macro effects. When you looked back with stocks at a low you told Americans to buy stocks with both hands.

BUFFETT: Well, occasionally--

BECKY: Yeah.

BUFFETT: --stocks are just demonstratively cheap. I mean, really demonstratively cheap. And--I wrote an article in 1974-- or, I did an interview with Forbes—and in 2008 I wrote an article for The Times. And, I mean, there are occasionally when they're just ridiculously cheap. But-- most of the time they're good value.

BECKY: Uh-huh.

BUFFETT: But there have been a few times when I thought they were so cheap that I-- I should say something.

BECKY: You know, people have pointed out obviously stocks have come a long way since then. People have been analyzing your annual report and realizing that you didn't really say anything like you've said in years past where you said-- I-- one time a few years ago that stocks obviously were a much better value than gold.

This time, the excerpt that you-- put into Fortune a few days ago that people really focusing on had two examples that were both around real estate, 1) the farm that you bought here Nebraska. Another-- some real estate that you invested in just across the street from NYU, from New York University. And that has people speculating, do you think that real estate and other areas are better places for money than stocks right now?

BUFFETT: No, that's they're speculating wrong. I used those-- illustrations because I don't know that much about real estate or farms. And yet it was still possibly to successfully invest them. And--I feel the same way about people on stocks. If they you can have a great, long-- life-long experience in stocks and really not be a specialist in accounting or, you know, know all the ins and outs of capital structures and all of that sort of thing.

And-- I used-- I was just-- I was probably more ignorant of-- the realities of farming, the realities of that building in New York as most people are with stocks. And yet, it was perfectly possible to come to-- an intelligent decision that you could not lose money in those-- investments and that you were probably gonna make quite a bit of money.

BECKY: Yeah. I wondered that. Because there have been a lot of people recently who have raised questions about the stock market, who have worried that it is-- a fool's game to try to get involved. That it's-- the average investor can't get a fair shake. I've heard people like Bill O'Reilly say this very recently, that he doesn't trust the stock market and thinks it's rigged. What do you tell people?

BUFFETT: Well it isn't rigged at all. I mean, there have been occasions where given stocks were absolutely rigged. But-- but it's pretty hard to rig--$20-plus trillion (LAUGH). And the-- people should forget about calling it the stock market, even. I mean, it's American business.

And-if for some reason you think American business over the next 50 years is likely to be way less productive than it has been in the past-- then you can come to a negative conclusion on it. But I--came to a conclusion on that farm that it was likely to produce a little bit more over the years and that the crops would bring a little bit more over time and I bought it on a 10% yield-basis to start with.

So when you're buying a productive asset you don't wanna-- categorize it by some name or-- and then read in the paper that this or that's gonna go up or down. You wanna look at the business.

If you bought the house next to you to rent to somebody you'd look at the rent you were gonna get, the taxes you were going to pay and-- what you thought the neighborhood would do over a long period of time. And then you'd measure that against the purchase price. The purchase price is all-important. And the stock market just offers you so many opportunities-- the thousands and thousands of different businesses.

You don't have to be an expert on every one of 'em. You don't have to be an expert on 10% of them, even. You just have to have some conviction that either a given company or a group of companies, and I would suggest for most people it should be a group of companies you have to have every conviction that those companies are likely to earn more money five or ten or 20 years from now than they're earning now. And that is not a difficult decision to come to.

BECKY: You also-- revealed something in the annual letter this year, where you said-- you laid out the terms of your will, what you've set aside for your wife. Which, I didn't know any of this.

BUFFETT: Yeah.

BECKY: And--

BUFFETT: Well, I didn't lay out my whole will. There's hope for some of you who haven't been mentioned yet. The-- but I did explain, because I laid out what I thought the average person who is not an expert on stocks should do.

And my widow will not be an expert on stocks. And- I wanna be sure she gets a decent result. She isn't gonna get a sensational result, you know? And since all my Berkshire shares are going-- to philanthropy-- the question becomes what does she do with the cash that's left to her?

And I've been-- part of it goes outright, part of it goes to a trustee. But I've told the trustee to put 90% of it in an S&P 500 index fund and 10% in short-term governments. And the reason for the 10% in short-term governments is that if there's a terrible period in the market and she's withdrawing 3% or 4% a year you take it out of that instead of selling stocks at the wrong time. She'll do fine with that. And anybody will do fine with that. It's low-cost, it's in a bunch of wonderful businesses and it takes care of itself.

BECKY: You've specifically said a Vanguard index--

BUFFETT: Yeah, right. Yeah, well it's-- a very, very low-cost index fund. And there are others. But there are others that aren't so low-cost. And keeping costs to a minimum is enormously important in investing, whether it's farms or buildings in New York, or-- but particularly in stocks. I mean, if you're in effect paying out 1% or 2% annually--

BECKY: Yeah.

BUFFETT: -- of your portfolio, that's a big, big tax-- that you don't have to pay.

BECKY: And people who are at home who are listening to this, they just need to look at the expense ratio.

BUFFETT: That's right.

BECKY: And you could probably get one for 20 to 25 basis points versus 100 to 200 basis points.

BUFFETT: That's right. I think Vanguard's actually a little under 20 basis points. And-- if all of the people that had owned Berkshire 40 years ago had never traded, every day they tried to open the stock and they just wouldn't have been there to trade it, their returns at aggregate would've been exactly our returns.

Now, if they traded around like crazy, they pay people to tell them to own it and everything, their returns would become our returns, less expenses. So it-- you should look for a very, very low-expense-- way of participating. And incidentally at-- at Berkshire-- our expenses are very, very low in relation to the-- 100-plus billion of investments that we have.

BECKY: We do have the opportunity for viewers to write in and ask you their questions. One viewer did write in-- (I'm sorry, I'm looking for the number right now) wrote in the question asking about why-- did you lay out that you had said you set this money aside for your wife to be put into a Vanguard index instead of put back into Berkshire shares.

BUFFETT: Yeah. Well-- Berkshire would be okay. But like I say, I'm giving away all the Berkshire shares. And Vanguard is fine. And-- Berkshire would be fine. But-- I wouldn't-wanna be touting Berkshire to people, generally. I have no problem touting the S&P 500 at a low cost.

BECKY: Let's talk a little bit about what you see in the economy right now. Because through your businesses you have an incredibly good idea about what's happening. You have, not only in the Big Five that are doing things, you have massive investments, you have retail operations. Just, in general, where do you think-- the American economy is headed right now?

BUFFETT: It's-- from what I see, and I do see figures on at least 80 companies or so. And I like to get 'em, and I get 'em fast. It-- exactly what's been going on ever since the fall of 2009 continues. I mean, we've had this moderate but consistent growth-- now for four and a half years. And every now and then we get excited about it speeding up and every now and then we start worrying about a double-dip and all that.

And you-- you've heard all this different commentary over the four and a half years. It's been remarkably consistent. And the GDP figures may bounce around a little bit. In terms of what we see I would say that it's been almost a straight line, but not at-- the kinda slope that people would like. But not flat either. And-- that's exactly what I see to this point.

BECKY: So were we overly optimistic in the fourth quarter and now we're overly pessimistic in the first quarter?

BUFFETT: Probably. We'll know for sure later on. But that's-- it's been that way in my-- we haven't gotten wildly optimistic. And we haven't gotten wildly pessimistic. But over that period you've seen the small waves of optimism and pessimism. And really they-- you know, it's just been pretty darn steady-- improving.

BECKY: How much has weather played a role in fact, I mean, the numbers we've gotten over the last two months have been pretty lousy.

BUFFETT: Yeah.

BECKY: But-- the market's been writing it off saying, "Don't worry about it. It's been bad weather around the country."

BUFFETT: It's a factor. I mean-- our railroad does not work as well when there's lots of snow and extreme cold. NetJet doesn't work as well-- in extreme cold. And-- those things compound on themselves. I mean, if it's terrible weather in one part of the-- country, you know, getting the planes to take care of the people there, it all just pyramids. So there's no question it's been some factor.

BECKY: Every time we bring up weather as an excuse, though, somebody will point out, "Yes. But if you look at housing numbers in the housing market in California, that's been slower, and it hasn't been in-- because of weather there." What do you tell people?

BUFFETT: Well, I can't tell you for sure. But we--have a couple of large real estate brokers--

BECKY: Right.

BUFFETT: --working in California. In fact, the largest one in the lower three counties. We just bought-- we're buying another one in San Jose. It-- it's okay. I mean, and-- the prices are-- the prices have really been quite strong. But you always in the winter have less activity in real estate. But-- we bought several real estate brokerage firms last year. We've already bought one this year and we'll keep buying 'em. I like the business.

BECKY: Okay. We're gonna continue this conversation with Warren Buffett. We have him for the next three hours. Joe, I'll send it back to you in the studio though because I know we have a break we have to get to too.

JOE: Yes, we do. Yeah. I have often thought about-- about Warren's will.

BUFFETT: How do you spell your name again, Joe?

JOE: I mean, saying that-- that-- that I think of you as a father figure, or actually calling you Dad is probably too much. But-- you know, in the past you've given me-- you gave me a couple of bottles of ketchup. You gave me a brick. You gave me a little card-- a NetJet card that was absolutely useless. It had no money on it. And I'm just thinkin'-- are you-- you're sort of--

BUFFETT: I've been--

JOE: --waitin' for the big surprise, aren't you? Is that-- am I gonna find my name-- am I gonna find my name in there, God forbid, when-- when--

BUFFETT: Absolutely. Absolutely.

BUFFETT: No, I've been testin' you, Joe. And-- and what you'll see in my will, and-- it'll say, "To Joe, who wanted to be mentioned in my will, hi, Joe."

JOE: You know, Dad, that would be enough for me. I'd just like to say that. That would-- I'm not looking for anything else. And-- that would be good.

BUFFETT: I'm gonna make that one the record.

JOE: Okay. You're on Page Six (of *The New York Post)* today. I think maybe I'll talk about that a little bit later since-- I use my-- my will--

BECKY: Uh oh.

JOE: Yeah, he's on Page Six.

BUFFETT: Uh oh.

JOE: He's on Page Six. He's-- you know, he's liable to do anything at any time. So-- it's all in the gossip column. And--so let's save that for later. Coming up--

BECKY: There's a good tease.

JOE: Yep. Yep.

BUFFETT: Yeah.

JOE: Coming up, a special-- Ask Warren edition. I've just asked him to include me in his will. The Executive Edge and taking a look at the future. What would it matter, really? With all-- I mean, $60 billion, would it-- really? Is it that big a deal? Anyway, Squawk Box with Warren Buffett will return-- in just a moment.

BECKY: Welcome back everybody. Right now it is time for The Executive Edge. This is a special edition of The Executive Edge. This is the Ask Warren edition. We are joined this morning by legendary investor Warren Buffett. And he is answering some of your questions.

Warren, we got a lot of questions that came in from people. I'd like to focus on some that take a look right now at-- Berkshire and some of the things you pointed out in the letter. One came in from Ron Rogers in Ridgewood, New Jersey. And he says that in the Fall of 2013 news came out that you were ever so close to a major, multi-billion dollar acquisition of what would've been another elephant. I assume you would not disclose the name of the acquisition target, but would you tell us what industry group it's in?

BUFFETT: Yeah, I'm-- I better not even say what industry it was in. But incidentally-- because there aren't that many companies in the industry. And-by the size of it you could probably know down to two or three companies. It didn't happen.

But there's-- you're always seeing the leaves rustling, if-- nothing else. I mean, then-- then there's gotta be something behind those leaves. We will-- we have nothing real hot at the moment, but-- we have things we're working on.

BECKY: Yeah. You-- said also on the annual shareholder-- in the-- in the annual letter to shareholders that-- when it comes to taking a look at what happened with Heinz that this is a template for things--

BUFFETT: Right.

BECKY: --that Berkshire might do in the future. Have—you spoken with 3G about doing another type of acquisition like a Heinz?

BUFFETT: Well, we-- we've talked about generally-- yeah, so it-- we--don't have a name.

BECKY: Uh-huh

BUFFETT: But both George Palo Lemon, who was my partner in that, and I would love to do another one. And-- they have an appetite for-- making acquisitions. And they have an appetite for making big acquisitions. And--

BECKY: And so do you.

BUFFETT: And-- - yeah. And-- we're a good pair that way. And-- and-- and-- they also do the work and we do the financing. And that's-- an arrangement that I can get used to. So I-- everything that's happened with Heinz-- in terms of negotiating the contract, coming up with the buy whatever it may be, every experience has been 100% satisfactory. So I really look forward to doing something further with them. And I think we will.

BECKY: You--talked a little bit about the Heinz acquisition in the letter, but how are things going so far?

BUFFETT: Well, things are going very well. But the Bernardo-- Hees took over in June. He-- he's done everything logically that we're on the zero-base budgeting. As I put in the report, I--would expect the earnings of Heinz to be significantly better this year than any year in history.

BECKY: You-- pointed out that you're not somebody-- the difference between this and a private equity deal is that Berkshire plans on holding this for a long, long time.

BUFFETT: Forever. Yeah.

BECKY: Forever. Would you be surprised, though, to see a Heinz IPO sometime in the next five to seven years?

BUFFETT: Yeah, it could happen. Because-- the 3G people, they did that with Burger King. And--they have a number of investors. I don't know how many. The primary investors I know. But they-- no, but I just don't know the number. But the-- some of those people, undoubtedly will wanna get out.

And if the figures get good, as I would assume they would-- they might have a chance to get out with a significant profit. And-- when they do, we have no obligation to-- 'cause they have no obligation to sell the shares to us. And we, so it would be totally voluntary on their part. But-- if they were going to sell those shares and I found the price acceptable, I'd certainly offer to buy the shares from them. I--

BECKY: Because right now you're equal partners.

BUFFETT: Yeah. We're equal partners. And we'd be equal partners even if the number of shares were somewhat different. Psychologically we are equal partners, even if the -- share count isn't equal. But I would like-- I would like, over time, to increase it. Sure. It's our kinda business.

It's forever. It's will-- it will be a profitable business. It should-- it-- it'll be a worldwide business, and it is a worldwide business. And it just fits into Berkshire. And our problem is putting money to work. So we're not looking to take money out of things. We're looking to put more money to work.

BECKY: But did it create a problem to have the guys who are still on the board at Burger King selling ketchup to places like McDonald's?

BECKY: No. McDonald's sells itself. I'll put it that way. I'm not sure the customer felt that way. But-certain of the franchisees, as I understand it-- sort of objected to the fact that the guy across the street who was selling-- hamburgers against them also was CEO and come from Burger King. He had been the CEO of Burger King. And I-believe he's still vice chairman. And-- certain franchisees of McDonald's were not happy about that.

BECKY: That's a big account though, correct?

BUFFETT: It's a big account. But- Berkshire's gonna have a lot of crossed lines as we get larger. There will be times when-- that-- the actions of one subsidiary irritate the competitors of another subsidiary. So you got-- that's just gonna happen.

BECKY: All right. We're gonna continue this conversation. Let's get back to Joe in the studio right now though.

JOE: All right-- Becky. A big night in Hollywood. One of the big winners last night-- at the Academy Awards. 12 Years a Slave won best picture. The movie also picked up award for Best Adapted Screenplay and Supporting Actress. But it was Gravity that took home the most statues-- seven in all-- including Best Director.

And it-- it's in reference to this, Warren, that-- that you're in Page Six. And I'll just let you know that your story is in between a big-- a picture of Kim Kardashian-- in a low-cut dress where the thing says she's got her own version of the Golden Globes (this is, you know, The New York Post) and then-- this is ridicu-- and then on the right-- is a picture of Branjolina. Brad and Angie. And then you're in the middle. And-- it says--

BUFFETT: They probab--

JOE: But-- yeah, go ahead.

BUFFETT: They probably asked for that placement, Joe.

JOE: Yeah. Yeah, they asked for that placement. And it says that-- that Harvey Weinstein invited you-- to his pre-Oscars party but-- you were kinda snippy back to him and you said-- you really appreciate it but you weren't gonna go to the Oscars this year since you weren't nominated. So you were gonna stay home. And--

BUFFETT: I'm a sore loser.

JOE: You are. You-- and then I looked up-- I looked you up on IMDB to see what-- and itthis classic-- this movie database, "Warren Buffett was born on August 30th, 1930 in Omaha as Warren Edward Buffett. He is an actor known for Wall Street, money n--" it says this right here. "You are an actor known for Wall Street, Money Never Sleeps, and then Das-something. Some g-- German thing." But-- and then it's got all your appearances. And it does include Squawk Box as some of your-- (LAUGH) some of your best-- appearances. What kind of--

BUFFETT: I put it right at the top, always.

JOE: You have been offered roles, haven't you? I'm sure constantly. And you turn 'em down? It's just not the right-- the right role for you? Or?

BUFFETT: Actually, I may have a small one under-- consideration right now. But I am-- I have told my agent to feature the Squawk Box appearances as tops on my resume. That that is most likely to get attention in Hollywood.

JOE: Yes. But I'm trying to think. You could-- you could be different things. If you really wanted to be, you could break out a character. You could be, like, a Bond villain and I mean, you would think about it at-- at this point. I mean, it's not your forte. But, I mean, I'm sure you get a lot of offers. You would've been on Breaking Bad--

BUFFETT: Joe, I'm thinking more glamour roles, actually. That may be why they haven't stepped up yet.

JOE: Leading man. Leading man.

BUFFETT: I could probably get a lot of those villain roles.

JOE: Leading man-type yeah, fr-- leading man-type roles. That's an idea too. That's an idea too. All right. Coming up, we're gonna-- we'll be back with Warren and Buffett-- jeeze, with Warren and Becky. With Warren and Buffett-- in a minute. But first, the news from Ukraine this morning, a big impact-- having on the market. We'll have more questions-- for Mr. Buffett, think about more movie roles for him-- when Squawk Box is right back.

JOE: And the markets, obviously watching all the developments coming out of Ukraine this morning. Russian president Vladimir Putin sending forces into the Crimea region, in his words, to protect Russian citizens. Western leaders almost universally condemning the actions and-- vowing to use economic and diplomatic measures to pressure Russia to withdraw.

The weekend events putting pressure on the global markets as well. The futures are down sharply this morning. European markets are also-- taking a hit. There's where we're down over 150 now on the-- the DOW. There are the European markets-- down across the board.

Russian markets are also lower-- at this hour-- as you can see down-- that's a significant number there, 12%. And-- so the dollar. Take a quick look, you can see against the yen, the euro-- especially the Russian rubel which hit a new all-time low. Gold has been in a little mini bull market on its own. And it's up another $23. You can see that-- just-- since-- the December lows. It's quite a move. Let's get back-- to Becky and Warren Buffett in Omaha. Becky-- you got the-- the oracle there. I guess-- the Ukraine is front and center.

BECKY: That's right. Now, Warren talked a little bit earlier about how difficult it is to try and look at some of these broader things and figure out what it's going to mean for the markets. But, Warren, you wouldn't be selling anything today based on this.

BUFFETT: No. I—if stocks are cheaper I'll be b-- more likely to be buying 'em. I we were-- we were buying, I think, one stock on Friday. And-- presumably selling lower today. And that's terrific.

BECKY: Was it Wells Fargo?

BUFFETT: Good try.

BECKY: I thought I'd give it a try. In fact, a lot of the questions that have come in from viewers and from Berkshire shareholders too have been related to your investments. And you did detail quite a bit of your big holdings and what you thought about some of these. But let me give you some of the questions that have come in.

Frank Ronnie-- writes in, "You've held Coca Cola, Wells Fargo and American Express for 20-plus years. If you didn't sell those stakes down during the great bubble of the late-90s or during the last financial crisis, is it fair to say that you will never sell these stocks? And can you envision a scenario that would actually make you sell any of these positions?"

BUFFETT: It's fair to say that-- it's very unlikely that we would sell 'em in any given year. Probably any given five-year period. But-- we need money to buy operating businesses. We could sell any one of those stocks, or maybe-- a group of them. Our preference at Berkshire is to keep buying operating-- big operating businesses.

And-- we like owning equities. We'll make money in the equities as an alternative. But in terms of building Berkshire for the long-term, we just like adding our earning power-- big chunks of earning power from operating businesses, which we are going to keep forever. So none of the stocks are forever. But they're for-- generally for very long terms.

BECKY: There have been a lot of questions that have come in regarding IBM. Let me go to one from Hong Kong. A gentleman named Rojesh Padjwani who writes that, "IBM has underperformed the S&P 500 by a big margin since you acquired a stake in it. While you've clearly mentioned in an earlier interview that you'd prefer that share price does not do so well so the company can buy back more of its share at a lower price, has the company's financial performance, especially revenue trend, disappointed you? And do you feel that you made a rare mistake by stepping outside of your circle of confidence?

BUFFETT: Well, the revenue trends have-- been less than-- anticipated. Although not dramatically less than anticipated. The financial numbers have been pretty good, but it's been helped by low tax rates and things of that sort. There is a transition going on in the business-- you know, particularly in-- in terms of the cloud.

And-- so I would say it's fair-- it's fair to say that I know less about the future of IBM than I might know about the future of Wells Fargo or-- Coca Cola or the businesses we own. I think I do know enough about it that I feel good about owning the stock. But-- -- my level of understanding of a company like IBM is not as high as my level of understanding of a Wells Fargo or a Coke.

In terms of the price action, that doesn't make any difference to me. That-- if-- IBM bought in a lot of stock last year. And if the stock had been even lower they would've bought-- they would've gotten more shares. So the fewer the shares outstanding the better I-- the better I like it. And they've continued to buy in shares. They buy 'em at a good clip, and I-- I like that. But I would like to see the revenues pick up.

BECKY: What do you think of the job (IBM CEO) Ginni Rometty is doing?

BUFFETT: Well, I think she got handed the company at the time of a real transition-- in the-- in the business. And--her record-- I feel fine with her at this point. I-- but her record will be judged, you know, five years from now. There's a lot going on in that business. And-- I think they're doing well. But—the final score will be five years or ten years from now.

BECKY: Are you buying more shares?

BUFFETT: We bought a few more shares last year. Not-- not very many. And-- I think we bought a few shares this year.

BECKY: Okay. Let me also ask you a question that came in. This is number 32, folks. It's Dan Youngberg who writes in, "Are you still as positive on rails? Which besides yours is good?" Meaning which besides Burlington Northern is good? "And what about the rail car companies?"

BUFFETT: Yeah. Well, there's four big railroads in the United States. And Kansas City Southern's another significant railroad. And two in the East, two in the West. And-- the rail business, over time, will be a very decent business. It's an enormous asset to the country.

And there won't be more-- yes, there may be more-- there could be some high-speed passenger and all that sort of thing railroad. But in terms of basic, freight railroads-- you've got the configuration in this country that's going to exist for a long time. And rail does move goods-- heavy goods very cheaply over long distances. And-- it's also in-- environmental-- environmentally friendly compared to-- highway traffic. So the future of railroads is very good.

BECKY: Also--

BUFFETT: And I would say that that's true of all the four railroads. And--

BECKY: A question came in from someone named Curtis Carter. He says, "Do you have any plans to use Burlington Northern and Santa Fe right of way for mid-America energy to move electricity East to West? And are you considering electrifying the railroads?

BUFFETT: Well, the answer to both is no.

BECKY: Okay. That's a question that I've heard from others before, so I--

BUFFETT: Yeah. Yeah.

BECKY: --kinda wondered about it.

BUFFETT: If anybody can figure out a way we can make a lot of money off the right of way that we haven't thought about I'd love to hear of it. But that isn't the way.

BECKY: In terms of how the railroad is doing though, you did take some time to really lay it out. The railroad-- has-- Burlington Northern has really benefitted from the shale boom that we've seen-- in parts of the country.

BUFFETT: It's benefited. And-- -- but all of the rails have done well recently. And, in fact, the Union Pacific, which is our direct competitor, has been-- has done very well. So it-- it's a business that-- has real economic advantages if you-- if you look at fuel costs, if you look at a driver's wages and on the highway. And-- as long as more goods move from place to place in this country rails are gonna get their share. And-- it should be good-- it should be a very profitable business.

BECKY: What about the Keystone Pipeline? That that question was raised several times by shareholders. And by--

BUFFETT: Well, I think that--

BECKY: --others who say, "Wait a second, do you really want the Keystone Pipeline to come? Because it's a direct contrib-- co-- a direct competitor to what would happen with Burlington--"

BUFFETT: It's not that big a competitor. It's moving—it would be moving-- crude down from Canada. And that-- no, I think probably the Keystone Pipeline's a good idea for the country.

BECKY: Do you expect that the president might actually pass it sometime?

BUFFETT: I have no idea.

BECKY: I had seen a study recently that came out from the State Department that suggested that if the Keystone Pipeline were put in it would end up saving lives, versus moving that oil via the railroad. I think it's something like six lives a year.

BUFFETT: Yeah. Well--

BECKY: Like, in--

BUFFETT: --both sides are gonna come up with that, certainly. They're--

BECKY: But that was from the State Department. It wasn't from--

BUFFETT: Yeah.

BECKY: --the key--

BUFFETT: Oh, yeah. Well, and they may well be right. There are leaks on pipelines. And, you know, occasional explosion, but that's very, very, very, very rare. But if you measure moving millions of barrels for a hundred years-- one versus the other, I-- I'm not sure how it would come out.

And it would-- and it depends on what's going on. They're gonna change rail cars, obviously. It is-- the-- particularly the oil from the Bakken and from the Eagle Ford as well-- has turned out to be more volatile than people anticipated. And that's going to require-- for one thing, we've lowered the speeds, you know-- in-- in that area. But it's gonna re-- it's-- it's gonna require the kinda tank car too.

BECKY: Yeah. Burlington just said that it was buying 5,000 new tank cars--

BUFFETT: Yeah.

BECKY: --that are higher--

BUFFETT: They're on the shelf there to go. They're an order. So it takes-- it takes time. We're-- with a different company, Marmon, we're in the tank car manufacturing business. And-- and there will be changes made. And there should be changes made.

And it's fair to say that we've found, in the last year or so, that it's more dangerous to move certain types of crude, certainly, than was thought previously. And, you know, that's-- there's no question about it. There's no question about it.

BECKY: You know-- a lot of the rail tank car companies rose on the announcement that Burlington Northern was going to be in the market for buying more of these things. Will they be buying them from mar-- from Marmon? Or are they gonna outsource that--

BUFFETT: They-- buy 'em from--

BECKY: --and buy them from wherever?

BUFFETT: --well, they-- yeah. But the problem with buying 'em is that there's a big backlog at not only Marmon's tank car subsidiary but Trinity and others that make-- make cars. So-- our backlog runs into the middle of 2015. Those aren't-- those aren't all for crude oil tank cars. Most tank cars don't carry crude oil.

BECKY: Right.

BUFFETT: When you see-- a train with a lot of tank cars on it, most of that is not crude oil. But some of it is. And more of it's-- has been in-- in recent years. So you can't just flip a switch and get 5,000 cars. There will be retrofitting that takes place, I'm sure.

BECKY: Right.

BUFFETT: And-- that's-- my guess is some of that will get moved to the-- to the front of the line because it-- there-- it's more important to get it done immediately. But-- but the tank car problem is a problem. And it should be addressed. It's being addressed. But you can't change the whole tank car fleet overnight.

BECKY: All right, we're gonna continue this conversation with Warren. Joe, we'll send it back to you right now.

JOE: Becky, is Buffett a Creighton fan? Hoops? Do you know? 'Cause they're in Omaha.

BUFFETT: You

BECKY: I don't know. I don't know.

BUFFETT: You bet. I'm-- I-- and there's a game against-- Providence next-- fri-- it's-- Saturday. It's our final game. I'm gonna be there to watch McDermott score about 60 points.

JOE: Oh, yeah? Yeah. Well, I-- because I guess you missed what happened over the weekend against my-- Xavier--

BUFFETT: Oh. Oh, no. Oh, no, let's not hear about that. No, don't tell me.

JOE: Number nine—

JOE: Number nine? I hope-- not any-- not any longer, my friend. It's tough to go into--

BUFFETT: I know. I know.

JOE: It's tough to go into Cintas Center. That was fun to watch. Anyway, I figured you were-- a hoops-- yeah, they're-- two good Jesuit schools, right, against each other? I like that.

BUFFETT: You bet.

JOE: All-- all right.

BUFFETT: You bet. We had-- we had-- we had-- we had a Cinderella team back in 1942 when I was a kid. And I've been waiting for a return.

JOE: Wow. I don't even remember that. All right-- coming up-- Apple and Microsoft in this-- in the news this morning. The futures-- are right now down less. I saw about 150, again, not quite as bad now. Now down 146. But more Squawk Box-- with Warren Buffett next.

BECKY: All right, Joe, we're going to continue our questions for Warren Buffett this morning. Again we've been taking questions from viewers. We've getting more this morning that have been coming in, but one of the things that happened over the last several months, Warren is there was a story out that suggested that the committee that looks at systemically important financial institutions said that it was considering Berkshire.

Now, again this was a story that was just kind of lightly sourced that went through. I wonder, first of all, if you've heard from them. And second of all, there's a question that came in from William Andersen in Salem, Oregon who said that, "Given Berkshire's policy to maintain a large surplus of capital, would Berkshire being declared too big to fail concern you? And would the increased regulation that could come with that designation be worth it to Berkshire to speed up the unwinding of the derivatives to below the threshold so that it would not be given that designation?"

BUFFETT: Yeah, our-- we've heard absolutely nothing from the people in charge of what's called sify. And our lawyers, I've checked that. And I would not think we would be under--our derivatives as a-- well, A) they're winding down to begin with.

But in nominal value, they're well, let's see Deutsche Bank has $60 trillion, so they're less than 1/10 of one percent of Deutsche Bank for example. And we have loads of liquidity. We have all these different streams of earning power. I think it's very unlikely.

BECKY: Those derivatives will wind down I think on average around 2020? Isn't that--

BUFFETT: Well the equity parts do. The credit ones all did wind down and we have very minor collateral requirements. We have no condition--we never have any significant short-term debt. We always have bundles of cash. We always have cash coming in every month.

It would seem very unlikely that we get categorized. We're large, but Exxon/Mobil's large. Apple is large. I mean, there's other large companies. It's not based on size. It's based on whether you're likely to get into trouble.

BECKY: All right, let's continue this focus on Washington. The president is coming out with his budget tomorrow, President Obama, and the early read that we've gotten on this is that it is going to be one that is maybe a little less inviting to Republicans, that he feels like he's already made his outreaches in the past, and that they haven't been effective. What do you think that does to the environment in Washington?

BUFFETT: Well, it's hard to imagine the environment getting much worse. As, you know, it's more or less a stalemate, in Washington, because there's a little loosening up, perhaps, but you have a significant portion of the Republican party that can hold the entire Republican party hostage, and that the Republican party can hold the legislative process hostage. So unless there's a real change in attitudes it's hard to see much happening.

BECKY: We did have a lot of questions that came in on the political front. One of the ones that came in under the ask Warren-- Twitter hashtag, was, "Warren, I know that you are concerned about the wealth gap. Are you supportive of raising the minimum wage, and tying it to inflation?"

BUFFETT: You're talking about the minimum wage for 60 years-- I used to work for minimum wage. That got my attention first when I was getting 75 cents an hour in pennies, but I-- it really cuts both ways. I mean, it-- you'd like to have people being paid more, but you also want to have as many people employed as possible. So that one cuts both ways. And I can argue either side of that.

I think the one thing that does make sense is to increase the earned income tax credit. I mean, that does increase the income of people who are working, and there's no question that the market system, which is the greatest system ever seen for producing lots of goods and services, also leaves more and more people behind as it gets more and more specialized. And we've seen that, and that's something that a very rich country should address. But I think the earned income tax credit is the better way.

BECKY: Meaning that you'd rather—and when I've asked people like Peter Orszag that question, he'd say, he'd like to see both of this things, the earned income tax credit, and a higher minimum wage.

BUFFETT: I wouldn't fight him on it-- on the minimum wage, but I think you can accomplish way more through the earned income tax credit without negative effects than the minimum wage. I mean, if you could have a minimum wage of $15 and it didn't hurt anything else, I would love it. But clearly that isn't the case. So there's tradeoffs on the minimum wage, and it's very hard to quantify those tradeoffs. People come out what these exact studies. They don't know.

BECKY: No, but the CBO recently came out with a study that suggested half a million jobs would be lost, 500,000, if the government were to go to $10.10 an hour by the year 2016. They said that it could be either zero or it could be a million jobs that were lost. Where do you think the likely falls?

BUFFETT: I agree with them. They don't know. I don't know. You know directionally that it goes-- the situation. Otherwise, you know, we'd have a $15 minimum wage if it wasn't going to affect employment, I'd be 100% for it. But, it would. So I don't know and it's very hard to quantify the tradeoffs. And usually you just get proponents of either side just pulling out the figures to substantiate their position.

The earned income tax credit I think is much clearer. I mean that puts more money in the pockets of people who are working for low wages. And that's what I'd like to see. And it doesn't distort the market system in any great way. But, you know, that's the way I would go.

BECKY: And Berkshire employs, what, 330,000 employees?

BUFFETT: About 330,000.

BECKY: How many of them make minimum wage?

BUFFETT: Very, very few. I mean, I can't give you the answer, but it'd be very, very few.

BECKY: Okay, let's ask a related question that comes in from Ian M. on Twitter. He says, "If you were advising Obama on economic policy, what's the greatest thing his administration could do right now to accelerate job growth?"

BUFFETT: Well, I think that obviously further fiscal stimulus would increase job growth but you pay a price for that. I think the market system will grow jobs over time, as it has been the last four years. It's just that we had such a shock to the system five years ago, and we really were in the emergency room. And the recovery has been slow. And I think most people expected that, but they're still disappointed with it as it happens.

BECKY: You know, we had Sam Zell on "Squawk Box" on Friday, and he came up with a really interesting analogy. He almost put some of the blame on the Federal Reserve at this point saying that when you have zero interest rates it's like not having a shot clock in a basketball game. That there's no severe incentive to get that money into investments at this point, that people think they have a lot of time.

BUFFETT: Well, I would disagree with that. I mean, if I've got money at zero interest rates, I want to get it out. And I'm looking for projects all the time, and we just in plant and equipment, we invested over $11 billion last year. That was a record for us. But I-- any project that comes to me that has a reasonable payout, whether it's wind farms in Iowa or whatever it may be you know, I love building more freight cars-- whatever it may be.

And zero interest rates really pushes me. I mean, if interest rates were 15%, you know, I would be sitting here with a 15% alternative and it would be much tougher for capital projects to catch my eye. So I would argue just the reverse.

BECKY: Let me ask you one more on the political front. Stan Duzy writes in. He says, "How do you compare the President of the United States' performance with Brian Moynihan's performance over the last five years?" Obviously you own a big stake in Bank of America that Brian Moynihan runs.

BUFFETT: The U.S. of America and Bank of America. They both have very, very tough jobs, and they both settled down to do them. And you do things one thing at a time. And Brian Moynihan took something that was a big, big mess which he inherited and—the size was almost overwhelming. And he just methodically has worked on one problem after another. And-- but he did not have to get the United States congress to agree with him.

BECKY: We're going to continue this conversation-- again, Warren Buffett is with us for the remainder for the show. Joe, right now, though, we'll send it back over to you.

JOE: See, I'd be out there dreaming about Warren Buffett coming back to me. I don't know if I can kiss up --

BECKY: And work your way back in there again, aren't you.

JOE: I mean, we started talking about the will. When you start talking about the will again, that's all I can think about now. Take it away, Beck.

BECKY: If you're wondering--

BUFFETT: I've got it in there now. It says to Joe Kernen who wanted to be mentioned in my will, "Hi, Joe."

BECKY: There you are. Hey, Joe Kernen. And he did ask how to spell it, too, to make sure he gets it spelled the right way. But speaking of, if you're just wondering how big those numbers actually are that he'd be talking about, the Forbes 2014 world billionaires list is out.

And if you want to take a look at it this morning, we happen to have one of the gentlemen who is on that top of the list who's there. Bill Gates comes in at number one, with $76 billion. Carlos Slim has $72 billion. Amancio Ortega comes in at $64 billion and Warren Buffett, number four, at $58.2 billion. Warren, we were talking about it, how much have you given away over the last several years?

BUFFETT: Well, I gave away about 160,000 A shares, so--

BECKY: Which would be?

BUFFETT: Yeah, $16 billion--

BECKY: You're better at math than I am.

BUFFETT: $27 billion or so.

BECKY: $27 billion. So even after that, you still have $58.2 billion on the list. You're number four. Here's the list. We have it right here.

BUFFETT: Don't take it too seriously.

BECKY: I want to ask some questions that have continued to come in from viewers. Part of what you talk about every year in the annual report, or the annual letter is you lay out how each of the insurance companies have done. You lay out how each of the businesses have done. Someone named LatticeWork with M and G-- writes in and says, "How has the latest rise of extreme weather events changed the calculus faced by Ajit Jain in reinsurance?" And I know you talk to Ajit just about every day.

BUFFETT: Yeah, it's interesting. I think the public has the impression that because there's been so much talk about climate that events of the last ten years from an insurance standpoint in climate have been unusual. The answer is they haven't.

I mean, we-- you read about these events, but you were reading about events 30 or 40 or 50 years ago. And we've been remarkably free of hurricanes in the United States in the last five years. So if you were writing hurricane insurance, it's been all profit. There have been more -- some more tornadoes than normal, but it's not had any effect in terms, so far-- the effects of climate change if any have not affected our-- they have not affected the insurance market.

BECKY: They haven't. So that's not something at all that you guys have changed your calculus on --

BUFFETT: I have made no difference. I calculate the probabilities in terms of catastrophes no differently than a few years ago.

JOE: Hey Warren and--

BUFFETT: That may change in ten years.

JOE: I think it's been three thousand days since it something like a category two hit landfall. That's the longest in history for a hurricane. And you mentioned tornadoes. Last year it was actually well below. I don't know about if you add up all the recent years, but, I watched you after, you know, Al Gore's big year it was a horrible year, but the one that he said we're going to have-- that's going to be repeated year after year, the one where he had-- we went through the whole Greek alphabet and started again, with hurricanes. I watched you, you knew. You knew. you knew, you knew, you knew. And you knew that that was going to be an opportunity to raise premiums, and then not really have any events over the -- and it played out, exactly like you thought. I don't know how you do it.

BUFFETT: Well I love the apocalyptic predictions on it, because-- you're right, it probably does affect rates. And the truth is that writing U.S. hurricane insurance has been very profitable in the last five or six years. Now the rates have come down very significantly, so, we aren't writing much-- if anything in the U.S. Our biggest single cat risk would be earthquakes in New Zealand.

JOE: And yeah, but what do you think of the perception right now, I mean it's-- I think it's from the mainstream media, but we are under the impression that adverse weather events are happening every couple a days, and that it's never been like this before in history. For some reason that's what people tell me.

And it's, you know, it's nice to be able to include them all into one thing, you know, when you include droughts, floods, too much snow, too little snow. When you can include it all into one big thing, it makes it look, you know, like you're pretty smart.

BUFFETT: It hasn't been true so far, Joe.

JOE: Yeah. All right. Well thank you --

BUFFETT: and you know, yeah.

JOE: I know, I know.

BUFFETT: We always think it's cold. But it was cold all about 50 years ago.

BECKY: Let me ask you --

JOE: The only thing that is weird is that the Great Lakes have-- I think they're almost totally frozen over. I don't know if we've ever seen that. I think we got one more to go, or something. So that's a little weird.

BUFFETT: Yeah.

JOE: Yeah, all right.

BUFFETT: Well, we don't insure against that.

BECKY: You know, Jim Cramer's been watching this morning as well, Warren, and he writes in a question too He says that in your shareholders letter, you always speak so positively about fabulous ways to transport goods. Do you think that keystone should be approved? I know we talked a little bit about this earlier, but I didn't really put you on the line. Do you think Keystone should be approved?

BUFFETT: I'd vote yes.

BECKY: You would vote yes for the Keystone.

BUFFETT: Yeah.

BECKY: He always wonders about creation of jobs, too, so energy and job creation is really-- pipelines and energy renaissance is what Jim's pointing out.

BUFFETT: Well, yeah, but I don't believe in the Keystone pipeline because of the jobs you make building it. I mean, you could build anything and create jobs. But I believe that-- I just believe it's a useful pipeline.

BECKY: You do? Okay. Great. We're going to continue this conversation. Again, Joe, we've got Warren Buffett here. He's with us for the rest of the program.

BECKY: Well, Joe, I can't think of a better day to have Warren Buffett sitting right next to us. Warren Buffet, the Chairman and CEO of Berkshire Hathaway, to talk about what's happening. And Warren, I know you are a long term investor, but when people wake up and look at the futures, and see down 150 because of what's happening in Ukraine, and questions about the economy, I suppose, at this point, and whether what happens there spreads here, what do you tell them?

BUFFETT: Well, I tell them that when I got up this morning, I actually looked at a stock on the computer in the trades in London that we're buying and it's down and I felt good.

BECKY: What was the stock?

BUFFETT: It was an English stock.

BECKY: So you look at this, I mean would you have done that anyway, whether or not the futures were down? Would you still be buying?

BUFFETT: Well, I had a price limit on it and we were buying it on Friday, but it's cheaper this morning and that's good news.

BECKY: So you buy more.

BUFFETT: Absolutely.

BECKY: When people start to think, "Wow, this could be the beginning of something really bad, it could be even a World War III situation, it could be a return to the Cold War," does any of that ever go through your mind?

BUFFETT: Well, if you tell me all of that is going to happen, I will still be buying the stock. You're going to invest your money in something over time. The one thing you could be quite sure of is if we went into some very major war, the value of money would go down.

I mean, that's happened in virtually every war that I'm aware of. So the last thing you'd want to do is hold money during a war. And you might want own a farm. You might want to own an apartment house. You might want to own securities. But, I mean during World War II you know, the stock market advanced and stock markets advance over time.

American businesses are going to be worth more money. Dollars are going to be worth less so that money won't buy you quite as much. But you're going to be a lot better off owning productive assets over the next 50 years than you will be owning pieces of paper or I might throw in bitcoins.

BECKY: You know, I've been meaning to ask you your opinion about bitcoin. What do you think of it?

BUFFETT: It's not a currency. I mean, you know, it does not meet the test of a currency. I wouldn't be surprised if it's not around in ten or 20 years.

BECKY: Why does it not meet the definition of a currency?

BUFFETT: Well, because-- people say, "Well, I'll sell you goods in bitcoins." But they change the price of those every time the price of the dollar changes in relation to bitcoins. They're pricing off the dollar. They could say, "Well, I'll sell it to you in barrels of oil." But if every time the price of oil changes they change the number of barrels you have to have, that's not-- your oil is not the currency.

BECKY: Yeah, but the yuan does that, too. And people still look at that as a potential currency.

BUFFETT: Which one?

BECKY: The yuan, the Chinese yuan.

BUFFETT: Well, yeah, well it is a currency. But it is not a durable means of exchange. It's not a storer of value.

BECKY: And you said yourself you wouldn't be surprised if it's not around in ten years?

BUFFETT: I would not be surprised. I don't know that, but it's interesting to me. I mean, it's been a very speculative, you know, kind of Buck Rogers type thing and people buy and sell them because they hope they go up or down just like they did with tulip bulbs a long time ago.

BECKY: Well the situation in the Ukraine you have said you're not that worried about. But in the letter to shareholders, you did lay out something that's been on the horizon that you are concerned about and that's what's happening with pension funds, the promises that have been made. Question came in from the Disher, saying, "What impact will unfunded government pension and benefits have on economic health in ten to 20 years?"

BUFFETT: Well, the government pensions aren't the problem. The private pensions are. The government has the power to tax. And it has the power to print money. We are not in a dangerous U.S. fiscal situation. We at some-- we have to quit having our debt grow as a percentage of GDP. It made sense to have it happen during-- when things were terrible five years ago.

But we can have a deficit which creates more debt, but not at a rate that is-- grows faster than the GDP grows. So if GDP is going to grow at two percent. In real terms, but the Fed has a policy that is sort of shooting for two percent inflation on top of that. That would mean, like, four percent in terms of nominal GDP. And you literally could have debt grow at four percent and it would maintain the same relationship to nominal GDP as it does now.

We are not in-- the trend is wrong. There is a danger if that goes on, although a lot of countries have gone far beyond where we've gone. But I don't like seeing it go up as a percentage of GDP. But this country is in wonderful shape.

BECKY: If you say that government pensions aren't the problem because the government has the power to tax, what do you say to somebody who has a private pension? Should they be worried about it? Should they think that they're still going to get it when they retire?

BUFFETT: Well, if they've got a private pension from corporations, it's protected by the pension benefit guarantee corp.

BECKY: Guarantee, right.

BUFFETT: And that has come into play in many pension plans. But the state municipal pension plans-- well, the one right here in Omaha is in terrible shape and almost got a lot of resources and it's a healthy community and all that

I mean, we can work our way out of it, but people, both who have made the promises and the elected general-- generally have not understood what they were doing when they were making pension promises. And there's a long tail to the problem so it doesn't catch up for a while.

But it's inextricable over time, and we are starting to reap the problems that were sowed decades ago in pension plans. And you're going to be reading a lot more about them. Of course in Detroit, they're going to have to scale back the promises.

BECKY: What do you think about the decision in Detroit where at this point it looks like everyone's going to take a haircut. But the bondholders are going to take a much bigger haircut. In fact that prompted a question from Gary Gambino who writes in, "Are muni bonds safe given your concern about the public pensions?"

BUFFETT: Well, some muni bonds are safe and some aren't, just like some corporate bonds are safe and some aren't. It depends on the debt paying capacity of the entity that owes you money, and if you take the Omaha Public Power district, which runs the electric operation here, those bonds are safe. They've got enough debt paying capacity, they can take care of things. But if you take a city like Stockton, California or something where they just they borrowed too much money.

BECKY: But in the situation in Detroit, it looks at this point like municipal bondholders are going to take a much bigger haircut than those in the pensions. They're not going to be treated equally.

BUFFETT: Yeah, the pensions are going to take relative to pain inflicted, my guess is the pensions problems are going to take-- or pension holders are going to--

BECKY: Feel it more.

BUFFETT: Oh, absolutely. I mean if somebody's getting $1500 a month and it's cut to $750 a month, that is huge. The bondholders are going to take a big cut. The debt's just got way, way, way out of proportion to the taxable base. And the problem with a city or a state is that if the math gets kind of overwhelmingly bad you set a cycle in motion where people leave and go someplace else that doesn't have the trouble. So it's--there're plenty of problems ahead in municipal finance.

BECKY: All right, we're going to continue this conversation. But, Joe, we'll send it back to you right now.

BECKY: In just about 15 minutes, we'll be introducing our viewers to the three T's at Berkshire Hathaway. Investment managers Ted Weschler, Todd Combs, and financial assistant to Warren Buffett, Tracy Britt Cool. These are the three T's that Warren has talked about extensively, and there's an awful lot of public interest in these three figures. This is the first time that three of them will be sitting down together, and talking on camera. So, we do have a lot coming up. We're back with Warren Buffett in Omaha. And Warren, let's talk a little bit about why you chose the three T's, how you came up with these three individuals?

BUFFETT: Well, when I'm not around, my job will be broken into two pieces, and one is running the business, the CEO, but then the investment end will be run by others. And it became important to bring on the right kind of investment people and so Charlie and I had talked about that. We-- well, the first time we took a trip, I think I had hundreds and hundreds and hundreds of applications that I was reading on the trip to China.

And we found two terrific managers, and they're not only terrific in terms of their investment ability, which had been proven over time, been proven to me, but they are really the right kind of individuals. I mean, they want to be with Berkshire. They'll be with Berkshire forever. And they're the kind of fellows you'd want to have marry your daughter.

I mean basically, we-- Charlie and I care about that, and in Tracy I've tried with assistants once or twice in the past but she came along and she's just done a perfect job. I mean, there're all kinds of things at Berkshire that I should do that I don't want to do. So, I hand those off to her. And the three of them have -- they've been worth a very, very substantial amount to Berkshire. It's demonstrable in terms of the financial performance of the two that manage investments –

BECKY: Todd and Ted.

BUFFETT: But it's also been very clear in terms of Tracy's performance with the subsidiaries that have been turned over to her.

BECKY: Todd and Ted are each managing about $7 billion.

BUFFETT: $7 billion now.

BECKY: $7 billion a piece.

BUFFETT: Right.

BECKY: They started out on a lower base was it, like, two or three billion dollars, and you've built up more and more over time?

BUFFETT: Yeah, yeah, and even most of them three billion originally, yeah.

BECKY: So what is it that you see in each of them, that made you think that they think like you do when it comes to investments?

BUFFETT: Well, I talked to them some, but I looked at what they'd done. It isn't just an investment record that impresses me, it's how that investment record was achieved. And there are people that are just in tune with the, even kind of markets, and then when the market changes, they never-- they really can't adapt.

But Todd and Ted look at investments very much like I do. I mean, they look at stocks not as stocks. They look at them as pieces of businesses, and they evaluate business. They're really business analysts, when you get right down to it. And then they translate that into investment decisions.

And they both have a fundamental soundness to them but they're also-- it's a combination of soundness and brilliance. And you want both. And they think about things that haven't happened yet in terms of problems. They're-- not in terms of dreaming about great projects that are pie in the sky, but they're always thinking about the downside. And they've made

Berkshire billions of dollars already that we would have otherwise made, and they'll make us many billions more.

Tracy has gone into a variety of situations – usually the smaller companies that where one reason or another, we needed something done-- sometimes a management change. And she's done a lot better job than I could do. And she's done such a good job, that when one woman took over Johns Manville a year or two ago, she asked that Tracy be made the Chairman of the Board of that.

And Chairman of the Board of our subsidiaries, really, it's just an overseer from Berkshire's standpoint. They represent the shareholder, in a sense. And so she's taken on four of those, and she'll take on more as time goes along. And, she also will be a great repository of knowledge about all these companies for my successor.

BECKY: You know, let's talk about some of the succession notes that you made, in the annual letter. And you always do talk about this not only with the shareholders, but with the board. You say that the board-- something struck me this time around, where you said-- that the board knows who your choices would be, if there was an immediate need for a successor, when it comes to the CEO position, but you said that those people were either working at Berkshire right now, or were available to Berkshire. And that made me question that you're looking outside the company potentially for successors?

BUFFETT: No. No. No, the successor will be from within the company. All the candidates are now-- all of the candidates have been over the years and the successor will come from inside Berkshire. We've got you know, we've got so many businesses, we got a shot at evaluating a lot a talent. And there is a lot of talent there.

And some of them would have the talent to run the place overall. Others wouldn't. They're more specialists in their own business. But, particularly then, when combined with Todd and Ted, who bring an investment perspective, which is useful in acquisitions, analyzing acquisitions, I think we're as well equipped for the next century as anybody.

BECKY: And you mentioned both Todd and Ted, so I assume you look at the potential CIO part of your job be the investment part of your job as something that more than one person could take on as your successor?

BUFFETT: Well, those two could handle it, very well.

BECKY: Those two could handle it together.

BUFFETT: That doesn't preclude a third person, but I'm not looking for one.

BECKY: And also, when it comes to who the successor as CEO might be, I've asked you in the past, would it be a woman, and you said none of the candidates at that point were--

BUFFETT: Not at present.

BECKY: Not at present.

BUFFETT: No, I mean that doesn't rule it out. I hope I last long enough so we get some women on the list. But, there-- no, the top candidates now are men.

BECKY: And- those candidates, is that going to -- a list that's changed over the last year?

BUFFETT: Doesn't change very much. It's very slow to change. You know, they shouldn't be on the list if it's quite changeable.

BECKY: Right. Okay, let's talk about some other issues that people have written in about as well. In fact concerning Todd and Ted, we got a letter that came in from Bora Kostick, who writes, "In the letter you mentioned Todd and Ted created significant values in matters unrelated to portfolio activities. Can you give some examples?"

BUFFETT: Well in making an acquisition related in media general where we acquired a bunch of newspapers and also made an investment in the company Ted did all that. In terms of working in the RESCAP bankruptcy, Ted did that. He wasn't getting paid for these at all, I mean, this is extraneous work.

We just recently completed a deal in the last week or so where we exchange our Phillips 66 stock for a combination of cash plus a specialty chemical operation. That was Todd. I mean I may have partially conceived of the idea, but I just turned it over to him.

And those sort of things might not have gotten done if I had to do them myself. And there's some threshold at which I have to say, "The heck with it." And having them has been invaluable on that. I mean we're talking things that are worth hundreds and millions of dollars in addition to the billions of dollars they've made us on portfolio.

BECKY: And you've talked a lot about their compensation. Both of them were managing their own hedge funds before, and the compensation structure in Berkshire is very different than the two and 20 you would get if you were a hedge fund manager.

BUFFETT: That's right. If they-- last year they started with about five billion each. If they'd put it under the mattress under the standard hedge fund arrangement they each would've made about $100 million. I mean, that shows you how nutty the arrangement is.

But they would have literally made $100 million by sticking it under the mattress. If they put it in an index fund, and gotten the two and 20, they each would've made over $300 million. All they had to do was buy the vanguard index. And they each would've made over $300 million. They also would've gotten more favorable tax treatment on it then they got by getting a salary from Berkshire.

So imagine I mean, you can retire forever on $300 million. So one year you go, you put the money in an index fund so it just shows that the-- it shows you amounts you get by asset gathering rather than asset managing. I mean even though a great many hedge funds in recent years have not delivered high performance, they've delivered high fees.

But our arrangement is that they get a salary and then they get which to most hedge fund guys would look like nothing, and then they get paid on the excess. They get ten percent of the excess over the S&P performance. But it's done over a three year staggered period. So they can't have just one up year and then another down year, or something of the sort.

So that's the same arrangement I have with Lou Simpson at GEICO for 30 years. So, only if they do better than I can do by sticking the money in an S&P fund do they get paid a dime of performance. And it seems to me that's quite logical, but it's not something that the hedge fund community is out there pushing harder for.

BECKY: They both beat your performance last year, didn't they?

BUFFETT: I'm sorry you brought that up. They not only beat my performance, they smashed my performance.

BECKY: All right, up next, we're going to talk about the market's reacting to the situation in Ukraine, plus some stocks you need to watch at the open. And at the top of the hour, a behind the scenes look at what makes Berkshire Hathaway tic. We will have Tracy Britt Cool, Warren Buffett's financial assistant, plus Berkshire investment managers Todd Combs and Ted Weschler, all right here with us, right on set. Squawk Box will be right back.

JOE: Okay, thank you-- Jim Maceda, let's toss it back out to Becky. At this point-- the one thing that-- that we keep hearing, Becky, and that's somethin' I'd ma-- maybe take a little solace. He knows how expensive it would be to-if he-- if Russia needs to-- take all of Ukraine's problems.

And maybe money is the one thing that we can count on, you know, that-- that-- you know, these leaders aren't reasonable and absolute power corrupts absolutely. But it'd be a lot easier to have the-- West and Europe and United States sort of pitching in to help this-- this huge region's economy.

BECKY: Yeah, that-- I guess that was Michelle's point earlier this morning. Maybe the markets can step in and put a little pressure where that was done. I noticed some earlier coverage that noted that-- Ukraine, the guys who are in charge at Ukraine now, instead of sending in their military are sending in the oligarchs there, the wealthy, the influential people, to try and make the argument about why this should be done-- from a peaceful perspective. And that might make a difference, too.

JOE: Yeah, yeah. I kind of think of Buffett as kind of an oligarch. I guess that's probably-- that's a stretch to some extent, but-- you know, and we just-- actually, you know what? I don't think he's rich enough to be an oligarch in most of these-- these Eastern countries.

BECKY: Right, yeah. And some of these guys have built up an incredible stores of wealth. But you're right, it is a special morning here on Squawk Box. We have Warren Buffett here answering all of your questions. He's been doing that throughout the morning.

Right now, we also have a rare interview with Berkshire Hathaway investment managers Todd Combs and Ted Weschler, plus Tracy Britt Cool, who is Warren Buffett's financial assistant. All three of them are here. And this is a rare treat because, I don't think you three have ever sat down together for an interview, have you?

MULTIPLE VOICES: No. No.

BECKY: We-- we've talked in the last block about-- why Warren chose each of you. And he explained a little bit about-- what he finds so interesting in each of you. What I'd love to hear from you three is why you chose Berkshire Hathaway and maybe how you found your way to Berkshire, because each of you had a very different path. Todd, let's talk a little bit about w-- when you first w-- talked to Buffett. When did that happen, to Warren?

TODD COMBS: Well, I reached out to Charlie. And we had a series of conversations-- over the course of several months, before one day I was out visiting in L.A. and he said that-- just outta the blue after a three or four-hour breakfast that-- in classic Charlie style that Warren would really like to meet me, not that-- I'd really like to meet Warren.

But-- and then he went on for about five or ten minutes about how much Warren would like to meet me and so forth. And-- so, I came out to Omaha. And Warren and I spent the day together talking about everything from baseball to-- business and insurance. And-- and just very interesting.

BECKY: And you-- you've moved your whole family to Omaha. When did you move?

COMBS: That's right. After I joined-- the kids finished-- out the year in school back in Connecticut and we moved the entire family out right after I joined. And so we've been out here, I guess, coming up on about three years now.

BECKY: Okay.

COMBS: And it's been wonderful.

BECKY: And it's been wonderful, and you guys love Omaha.

COMBS: Absolutely. The-- my wife and the kids all love it. It's been an absolutely wonderful experience. Omaha's a great town. And the people really make it there. It's just been an excellent experience.

BECKY: Ted, I love your story, too, for how you came here. Because over the course of two years, you've paid $5.3 million for two lunches with Warren. How-- how'd that happen?

TED WESCHLER: Donated 5.3 million.

I like-- I like your version. And then, Becky, I go-- and when reading Warren's letters probably since '79 when I started college. And-- it was kind of a bucket list thing for me, that I always wanted to meet the guy. And, I think, as you know, Glide Foundation, terrific charity in San Francisco, does an annual auction. And I wanted to know more about Glide there, so we spent half a day out at Glide, understanding the charity. And I thought, "Hey, this is-- this a terrific charity to really help the otherwise helpless." And I bid on the auction and ended up winning. And--

BECKY: Did you keep hitting the button at the last minute, to try and make sure you were the high bid?

WESCHLER: Not quite. Not quite. Not quite. But it-- but I end-- ended up getting it and-- came out to-- like, my only condition on it that I asked for was I wanted to do it anonymously. And I-- I didn't want-- we were set up at Smith & Wollensky's and-- we opted to do it in Omaha, actually, I requested that.

And I came out and visited with Warren. And-- it was just fun. I mean, we really hit it off. And I was expecting kind of-- a stiff hour-or-so meeting. And it ended up being this, you know-- long visit at the office and a terrific-- dinner, where we had a lot of-- just, you know, common interests and laying-- thought about things very-- similarly.

And, you know, that was that. And-- I was pretty happy to have it checked off. And the following year-- I said, "You know, I really don't wanna see the price of this go down." So, mentally-- mentally, I said, "Well, if we-- if you're gonna go for the same price or less, I wanna make the donation again and help out Glide."

And it-- and that happened. And I came out the second time, and again, and we really just had-- had a terrific visit. And toward the end of the evening-- and I had my, you know, little yellow legal pad of questions I was asking Warren. And I wanted to make sure I hit all of 'em. And I said, "You know, you can ask me anything you want, too." Out of the blue, he said, "Well-- I think you might be a good fit at Berkshire. Would you have any interest?" And it was-- it was the last thing in my mind. It really just completely turned me off, but--

BECKY: Did it floor you to hear it?

WESCHLER: Totally. Totally. Yeah, I mean, y-- really, they had totally threw me off. And-- but I-- I didn't wanna be dismissive. I mean, you know, this guy is like a hero, you can't just say, "No way." And so I started thinking about it.

And-- you know, it-- it was right at that point, I'd run my own fund for 12 years. The regulations on hedge funds were changing. I was gonna-- had a staff of two people and me that ran my fund. I was gonna have to bring a compliance person in. And life was gonna get complicated. Thought, "Wow, this is actually a way to simplify things and do what I love to do, which is be an analyst."

BECKY: And Tracy, your path to Berkshire-- is one that a lot of people-- I know when the students come out-- to meet with Warren, they always ask him-- "How did Tracy do that?" and, "Should I change my name to start with T?" I've heard that question last week, between you three. How did you find your way to Berkshire?

TRACY BRITT COOL: Well, meeting Warren was also on my bucket list but I didn't have $5.3 million. So, I had to take another path. And I came out with one of the student groups-- an organization that I was involved with called Smart Woman Securities. Warren loved to support women in investing and wa-- women in business.

And it was a great opportunity to meet-- Warren. I really enjoyed that experience. Like I said, it was once in a lifetime. And a couple years letter-- later, I decided to write a letter to Warren and just say, "Can I come out and spend a day, a week, a month, I'll do anything if you let me spend some time with you," fully assuming he would say no and I would say I tried and we'd go about our way. But fortunately he said yes. So, I-- came out that summer, worked on a small project for him, thought, "Wow," again, "this is a once in a lifetime--

BECKY: What was the project?

BRITT COOL: --"experience." I was looking at the-- looking at the Lehman bankruptcy. And so it was a very daunting task, and one where I don't think I ended up having-- too much value to add. But it was really interesting. And it allowed Warren and I to have an opportunity to have a variety of discussions about business management investing. And those are all great for me, and I think, my guess, a good opportunity for him as well to learn more about me.

BECKY: You know-- Warren, you must get letters all the time from people who wanna come to work here. You must meet people all the time. But- what about these three in particular really jumped out--

BUFFETT: Sometimes-- things jump out at you. I mean, it-same way as when we bought **Iscar**. You know, that was a one and a page-- one-and-a-quarter page letter from Israel, and we made a $5 billion purchase on it. And it-- it's-- to some extent, not perfectly, but people do give themselves away.

And I've had literally thousands of letters from people who wanted to do hedge fund type-- or— manage money force. And—they also had a longer record and everything. But it-- it's-- it's more than having had a good five years or something of the sort. You know, I've seen a lot of investment managers come and go. So, it's a judgment about their intellect. But it's also just as much a judgment about their character. And-- we've got the right three here. And they don't come along every day. You

BECKY: They don't. And-- in fact, there-- there's been a lot of interest in all three of you. We've gotten a lotta questions that have come in from our viewers. And we've been posing some of those questions to Warren this morning. But if you-- if you three don't mind, I'd like to ask you three some of the questions that have been coming in, too.

Part of what's really come up is just-- Todd and Ted, I'll ask you this first-- how you invest and how you see the world. Ted Ehrhardt writes in-- guys, this is number 82-- Ted Ehrhardt writes in, "When you identify a company, for example, that seems worth a deeper look, what does your investment process generally look like? What do you like to read? And how much time is typically spent before you're ready to actually make an investment?" And I'll start with you two on this.

COMBS: Go ahead, Ted.

WESCHLER: Okay. So, I'd say that it's-- investing well, not turning over a lotta stones. And the way that I spend my day-- is just reading-- annual reports, transcripts-- delta reports, regulatory filings, channel checks-- anything I can get my hands on, really-- trade magazines, etcetera. And so 99% of what you look at you can dismiss-- within five minutes. It

BECKY: What-- what's the magic thing that tells you, "There's no way that this is something"?

WESCHLER: Well, there's kind of-- you know, Charlie talked about mental models and-- and so forth. There-- there's a lotta things—Think about like a gating analysis or a flow chart. There's a lotta things that come along-- obviously, valuation being one.

And being able to understand the business-- and technology is an area that-- sector that I traditionally haven't done much in because I think it's very hard-- to know what a lotta the businesses will look like five years from now. So, there's a lotta things that you go through this gating process that are just completely eliminated.

And if you know that you can't get comfortable with it, you don't need to spend any more time on it. So, it's the 1% of ideas that are really exciting that you-- it's kinda like a needle in a haystack-- you know-- you just know when you've done this long enough when there's something there. And that's really exciting, because if you love investing that's what you can spend the next 500-- thousand hours on, really digging into--

BECKY: Five hundred thousand hours.

WESCHLER: Somethin' like that--

BECKY: How much do you read every day? Because didn't Warren tell you at one point that that's the most important thing you should be doing?

WESCHLER: Yeah, when he came to Columbia and spoke to the business school and-- Professor Bruce Greenwald's class and-- in either late '01 or early '02-- the very last question that was posed to him was-- what his secret was. And he had this-- I'll never forget-- he had this giant pile of paper and he pulled it out.

It was a complete hodgepodge. And he said that he reads 500 pages a week. And-- anyone can do it. And-- you know, it's like compound knowledge. If you start today, you just build over time. And so that's when I started. And then somewhere around 500, sometimes a little bit more pages a week. And that can be all those things I mentioned before-- annual reports and transcripts and regulatory filings and so forth. But that-- that's really the process-- to answer your question--

BECKY: Yeah, there's-- no easy way to it. It's--

WESCHLER: No, no--

BECKY: --building up knowledge over years and years and years.

WESCHLER: That's right. That's right. And then, you know, as Warren had said before, it is compound knowledge. You get better and better at it. It's spotting those gating factors. I can look at a bank or-- you know, certain companies and certain sectors much faster than I would-- you know, five, ten years ago.

BECKY: Warren, that reminds me of something you said when you made that Bank of America investment. When did you first read Bank of America? I mean, you'd built that up over decades--

BUFFETT: Yeah, I read that probably 55 years ago I read a book called Biography of the Bank. But I probably read their annual report every year for 50 years. It-- I-- you know, the same things happen many times. I mean, itand the beauty of it is that it is knowledge is cumulative. And even what you're learning about Company A will help you thinking about Company B.

BECKY: Ted, how about you? How does your approach differ? Or is it the same?

WESCHLER: It's very similar. I think things that are distinguishing – I'm a little bit quirky. I typically don't meet management. I don't talk to management.

BECKY: Why?

WESCHLER: I-- historically, when-- I was in private equity for 15 years. And generally, if you become a CEO of a company or a really good salesman, one way or the other, and you're gonna probably spin people. And-- I made a couple big mistakes when I got involved in situations where I liked people too much.

And, I generally like people. So, the way to avoid that is put the filter on that rely on reading transcripts, 10ks, 10qs. And the other key thing-- and it-- I mean, plays off of everything-- Warren and Todd just said is, you know, know the situation. Wait for the right price.

BECKY: Right.

WESCHLER: You're just always reading about things. But, you know, people-- most of the times the price won't be right, but be ready.

BECKY: Be ready.

COMBS: Yeah.

BECKY: Tracy, people have a lotta interest as to what you've been doing with the company that you kind of parachuted in on. Warren talked earlier about how when he has a company that's in a little bit of trouble, with some of these ones that he hasn't spent the time with, he's asked you for some help. Tom Roth from New Jersey writes in and he says, "What are your plans for Benjamin Moore going forward?" I'm interested in that, but I'm also just interested in-- what is it you do when you parachute in.

BRITT COOL: Definitely. At Benjamin Moore, we have a tremendous quality of a brand there as well as a great company with great people. And it's just a situation where we need to give a little bit more attention to our dealers. So, over the last ten years or so we've underinvested in our dealer network.

And now what we're trying to do is reinvigorate them with trust and helping them understand-- that we're here for them for the long haul. We're not gonna be through other channels. We're not gonna make commitments in other directions, but really for them. And I would say when I go into a company, it's helping the management team identify the direction which we need to move. And in situations that I'm involved, typically there's been some sort of industry change, business shift, somewhere where we've lost a way a little bit.

And we can use resources within Berkshire. Other Berkshire companies are usually the first place I look to for knowledge and experience and asking, like, "Can you come in and help? Can you talk to us about how you manage that in your warehouse, how you went to market with a specific brand, how you approached some issue that was of specific significance to you, and how can you leverage that knowledge within Berkshire at our other companies?"

BECKY: Okay. Guys, another question that has come in-- this is directed to Ted and Todd. Both of your compensations are tied to each other in an 80/20 split. If you could pick any investment manager besides the ones you're sitting with to have a similar split, who would you pick? And I think Warren's sitting here, too, so you can't choose them.

COMBS: Ninety-nine/one they might go for it

WESCHLER: They can't pick Charlie either?

BECKY: No, I'm gonna take him outta the running. I'm gonna take him outta the running. But-- you both have long careers. You both have worked with a lotta people over the years. Is there somebody else who impressed you along the way? I think that's what they're trying to get at.

WESCHLER: You wanna go first?

COMBS: I have names that I've recommended people to. I'm just not 100% sure that they would necessarily wanna be recommended. I'll tell you, Lou Simpson was at-- at Geico for a very long time at Berkshire. And there's-- a fellow named Tom Bancroft that runs the fund-- out in La Jolla that worked for Lou for about 13 years. And he's done wonderful. I've referred people-- over to him before. And—

BUFFETT: Larry Putnam worked for-- La-- Larry Putnam died-- unfortunately. But he-- managed money very well after he left-- left us.

BECKY: Right

COMBS: Mary Wentler joined our board. I don't think she takes outside money, but cer-- I've known her for probably ten, 12 years. And she has a wonderful long-term track record-- as does Tom.

BECKY: And what do you think, Ted?

WESCHLER: I'm thinking-- I-- I've never met him, but David Tepper's got as good of--a 20-year track record as anybody out there. And he's proven able to, you know, do well in tough markets and do well in rising markets. And I-- I always respected that.

BECKY: All right, that's a great point. Another question for you. Do you own any Berkshire Hathaway shares personally? And if you were still running your hedge funds, would you buy it for your funds? If you do own shares, do you think that Berkshire shares would be better off if it were broken up due to the conglomerate discount it appears to have been stuck with the last five plus years? What do you guys think?

WESCHLER: I-- I do own-- some Berkshire. Owned it when I joined. I probably would not have it in the fund. Typically, when I manage my own fund, I- am-- a lotta what I do at Berkshire's, I like to become the largest shareholder on a given company. And that's kinda hard to do with Berkshire. And the third part of that question?

BECKY: The third part, would you break up the company?

WESCHLER: Oh, break-- no, no, no. No reason to break it up. That—

BECKY: That's what I thought—

WESCHLER: --would-- yeah—

BECKY: --you might say.

WESCHLER: --you don't wanna mess with it.

BECKY: Todd?

COMBS: Yes, same answer. I own it as well. I owned it-- when I ran Castle Point. And-- yeah, there-- there's-- there-- I don't think there's that much a conglomerate discount, but certainly doesn't need to be broken up.

BECKY: Ted, specifically, this question came in for you. And there's been a lotta talk about DaVita—

WESCHLER: Uh-huh.

BECKY: --recently. And you know that that was a stock that you identified. And Mark Blakely from Tulsa, Oklahoma, wrote in and said, "Would Ted Weschler explain what he likes about DaVita HealthCare Partners and why he finds this company such a great investment? Since Berkshire signed an agreement not to own more than 25% of DaVita, does Ted or Berkshire have any other intentions besides being a large shareholder?"

WESCHLER: Okay. I followed the dialysis industry for, mmmm 30 years now. Right outta college I started-- studying. And so I know the space reasonably well. And I think the broad filters that I apply for healthcare investment in general is-- number one, "Does the healthcare company deliver better quality of care than somebody could get anywhere else?" And DaVita falls into that.

Number two, "Do you-- does it deliver a net savings to the healthcare system?" In other words, is the total bill for U.S. healthcare cheaper because of the efficiency that the company provided? DaVita checks that box. And lastly, "Do you get a high return on capital, predictable growth-- and, you know, shareholder-friendly management?" Absolutely. And all three of those together-- you know, you've got healthcare is whatever, 17%, 18% of GDP. You got an incredibly talented team running that company. I'm not sure what the stock will do over the next year or the next two years, but very comfortable at five years from now it'll be-- a more valuable franchise.

BECKY: Uh-huh. Can I ask you both-- you both-- Direct TV. Is that right?

COMBS & WESCHLER: Yeah.

BECKY: You both like Direct TV. When did you see that? When did it first pop out at you? Todd?

COMBS: Well, yeah, I think I was-- in the name and my fund probably eight years ago and then bought it when I came onboard as well.

WESCHLER: I'd started following cable and satellite about ten years ago. Kept an eye on it the whole time. And it was one of the first things I bought when I got-- when I came to Berkshire.

BECKY: How much back and forth is there? I mean-- in terms of when you, like, see a stock you like and you identify it, do you talk to Warren before you buy it? Or do you just go ahead, buy it, and maybe tell him at some point down the road?

WESCHLER: Give him a heads-up-- just because there's a concern that he may we may know something institutionally that's inside. So, we know--

BECKY: Oh--

WESCHLER: --we don't want to create a problem.

BECKY: --right. Warren, you've talked about that before.

BUFFETT: Yeah--

BECKY: You just have to make sure that there's not a Berkshire conflict--

BUFFETT: Yeah, that we're not taking the place over tomorrow.

COMBS: But-- we do have total autonomy. And Warren, in fact, insists on it. So it's not a matter of going to him and asking him if we can buy it or anything like that, as Ted said. It's literally for compliance reasons, to make sure there isn't anything going on that we don't know about.

BECKY: Warren, anytime that there's an SEC filing that says Berkshire is compiling a stake in such and such company, everybody immediately runs out and says, "Warren Buffett is buying it."

BUFFETT: Yeah.

BECKY: How do we know what you're buying, what these guys are buying? How does it all—

BUFFETT: You don't know for sure, but the chances are-- you know, if it's-- if it's a multibillion dollar position-- although they have no multi-million – position to approach two billion-- but if it's really large, it's probably mine. And if it's really small, it's probably theirs. It's probably not mine that I'm just starting on although it could be.

BECKY: Uh-huh. Tracy, one of the things we've talked about this morning is Heinz and how that acquisition's been going. What have you seen from what you've been doing with the company and sitting onboard?

BRITT COOL: It's going very well. I think that it-- there again is a company where we have a tremendous brand and we have a great team with Bernardo and the-- rest of individuals there. And they're continuing to move forward. And I think that that company will be much stronger a couple years from now than it is today.

BECKY: Uh-huh. And-- Warren, just your thoughts about having these three in the office. This is a picture, by the way, that was in the annual report. You've never had a picture in the annual report before, but this is a picture--

BUFFETT: It shows how flexible we are.

BECKY: --yeah, which--

BUFFETT: Yeah.

BECKY: --when you realize there's 330,000 employees at Berkshire, this is the headquarter staff.

BUFFETT: The entire head office with the exception of two people who missed-- the lunch. Here's the most valuable person to Berkshire, this Don… my assistant, but this fella over here at Mark Millard's example. He's in charge of $40 billion of cash.

And-- he moves it around. And-- you know, I give him guidelines. But they-- it's a sensational group. And we're all on one floor. Our tax return is 23,000 pages. That's twice as high as I am. And they put out the 10Ks and the 10Qs and they handle the inquiries about Berkshire, the public relations, investor relation-- all sorts of things. And they do a sensational job. I couldn't be more proud of 'em.

BECKY: Well-- Todd, Ted, Tracy, I wanna thank you three for joining us today. We really appreciated your time. And it's been great getting to hear from all of you.

WESCHLER, COMBS & BRITT COOL: Thanks. Thanks for having us.

BECKY: --thank you so much. And this conversation with Warren Buffett is going to continue. In fact, when we come back, personal income and spending data are out. And then we'll get back to our interview with more of your questions for Warren Buffett. Right now, though, as we take-- as we head to a break, take a look at what's been happening with the U.S. equity futures.

JOE: This is Ask Warren day and I have been wanting to talk about the final four at some point because Warren is a huge here is going to the Creighton game I've sent you some stuff as hard as it is for me to believe

BECKY: --Yeah I'm still trying to look this up. Joe has a question on this. And- Joe, we should mention the news that is just out in the last half hour about the billion dollar bracket deal that Berkshire Hathaway is ensuring with-- Quicken Loans. And this is something we've heard about for a while. And this is all tied into March Madness. If you pick the perfect bracket, you win a billion dollars?

BUFFETT: Yeah. Well-- or $500 million immediate value or $25 million a year for 40 years.

BECKY: And-- Joe, the news that was out today is that Yahoo is also getting in on the deal, which Warren, that's pretty surprising looking at what had happened. It sounded like Yahoo had its own plans to go ahead with a deal like this. They didn't go ahead with that because Quicken Loans went out first.

BUFFETT: Right.

BECKY: And- now we heard today that Yahoo's joining up.

BUFFETT: And now they're joining forces. Yeah, yeah--

JOE: You know what, Warren?

BUFFETT: --it was new to me just a few --

JOE: You-- you got a better chance at Power Ball. Okay-- you're a genius. What-- is-- do you have a quick -- have you figured out the odds on this? Because I-you know, I think I could pick the team that wins. I think I might be okay pickin' the Final Four if I was really lucky. But just the very first round, pickin' those, you-- with-- what happens, and then pickin' 16, then pickin' eight, then pickin' four? That-- it's impossible! And some

BUFFETT: Yeah. Well--

JOE: --some autistic kid supposedly did it. I can't tell whether this is an urban legend or not that this kid actually did this.

BUFFETT: This defeatism is not like you, Joe. I mean-- if you could put in 15 million entries, which we expect to get-- then do you think you'd have a shot at it?

JOE: No. And I don't think you'd be--

BUFFETT: Oh

JOE: --I don't think you'd be puttin' up-- I don't think you'd be puttin' up a billion if you thought people had a shot at it, either.

BUFFETT: Well, oh, they have a shot at it. Yeah, no, the one thing I-- I've seen these calculations, for people will assume it's a random event so they take--

JOE: No.

BUFFETT: --two to the 63rd--

JOE: Yeah.

BUFFETT: --you know. But it is not a random event. I made calculations myself before entering into this insurance contract. And Ajit Jain-- also made calculations. And we were in the same ballpark and--

JOE: But did you s--

BUFFETT: --obviously went ahead with it.

JOE: --you see what's happened. I mean, B.C. beats Syracuse-- I mean, you look at-- it-- it's-- unbelievable-- I don't know who's good. I can't tell. I-- you know, one team I think is good is Florida. That's all I can figure out. Florida seems--

BUFFETT: Yeah.

JOE: --they seem really-- I don't know, after that, everybody seems like they've got-- you know, they've been killed by what is it, Goliath and-- you know, the giant. I mean, it

BUFFETT: Well, Joe, if you look at-- I think the last hundred and the last what-- 20-- it will be 27 years, maybe 28 years-- whatever it is-- they've had 64, there's been, like, 112 will say number one seed's playing number 16 seed and the number one seed has won every single--

JOE: Yeah, that's true.

BUFFETT: one of those games.

JOE: --who would you pick in the Final Four, Warren? You got Creighton in there?

BUFFETT: Well, I've got-- Creighton. Yeah, you bet. . Well, yeah, I would say maybe Arizona, too.

JOE: Yeah, Arizona. Florida. And-- and then Virginia looked good.

BUFFETT: Yeah--

JOE: 0Virginia who won their . Yeah.

WARREN BUFFETT –now that you've told me about Florida, yeah, Ithey're definitely gonna be in there.

JOE: Right. We're pickin' the number one. We're so good. Aren't we? We're pickin' the number one.

BUFFETT: Yeah.

JOE: Oh, pickin' the number one seed.

BUFFETT: Yeah.

JOE: All right-- well, we're gonna take--

BECKY: Hey, Joe, we--should point out, though-- before we go to break, we should point out when we have time to talk a lot much-- a lot more about the March Madness strategy, because both Warren and Dan Gilbert from Quicken Loans are gonna be joining us on set for Squawk Box on March 14th. So, we'll get into more depth with them on that day, too.

JOE: Wow, I can't-- that's--gonna be so much fun, isn't it? And-- and we'll--

JOE: --have our bracket--

BUFFETT: --a little more information then.

JOE: Yeah. And we'll have our brackets done by then-- you know, our TV news or brackets and all that stuff. Awesome. All right. We'll have-- much more of Omaha and Warren Buffett in just a couple a minutes. You got his Final Four. But first, a quick news headline.

BECKY: And welcome back to Squawk Box, this is a special edition in Omaha, Nebraska with Warren Buffett, who's been with us all morning long, answering your questions, and Warren, we continue to get questions that are coming in from viewers. Jeff Burton writes in: "What's your opinion on so-called 'activist investors'? Do you really think that they are acting in the best interest of the targeted companies and the shareholders, or are they more just interested in making a quick profit for themselves?

BUFFETT: Well, I think generally speaking-- they aren't just making a quick profit, and there's a law against making quick profits-- but our whole attitude in our own business and what we like to see with the business we own stock in, is we wanna for the people who are gonna stay in, rather than the ones who are going to get out. Now at any given time, you can make more money, usually selling the company than running.

I mean, most stocks-- most of the time, not all of time, sell at some discount to what you could actually sell the company for that day-- that day for. So you know, a little more activist activity might be just selling the company-- and I think that would be a big, big mistake.

I mean, I've seen cases-- where really good companies have sold for a third or a quarter what they were worth during-- and the answer isn't to sell the company, the answer is to keep running the company well. The answer may well be to buy in their own stock when they're selling at that kind of a discount. So I-- the money is flowing into activist funds because they've had good performance lately. And- so-- and that money will get put to work; so I think you're going to see a lot of activity in that field, that-- you know, I could do certain things to jiggle up the price of Berkshire-- in the short run, that would not be good for the company over five or ten years--

BECKY: Like what?

BUFFETT: Well, you can spin off one stock that might a hot type-- I mean, one-- of our divisions, it might be a pretty big, hot division, but it-- if it's a really good business, I just as soon keep it for Berkshire. And--there's a lot of efficiencies from a tax standpoint and a capital allocation standpoint, from being under one umbrella. So-- I am running the company for people who want to stick around, not for the ones who are leaving.

BECKY: All right, let's take what you just said and apply that to some specific instances. Nelson Peltz is right now pushing on Pepsi to split up the company so it makes more sense apart than together.

BUFFETT: Yeah. I don't think if I own Pepsi-- if I was the only holder of it or my family was the only holder of it I don't think I'd split it up.

BECKY: Because?

BUFFETT: I just-- I think that Frito Lay, it is an extremely good business, it's a better business than the soft drink business, but I think the soft drink business is good business, too, and I don't see a need to split 'em up.

BECKY: On that point, lemme point to a question that came in from a Neil Hagstrom . He said: "Are you worried about Coca Cola's declining in the near future?" Just the business of Coca Cola itself.

BUFFETT: Well, it's under a lot more pressure than it was ten or 15 years ago, particularly in the United States. But their sales went up last year, just as they go up almost every year, in terms of-- even in cases of carbonated soft drinks. And you know, right now, 3% of all the liquids people in their mouths, throughout the whole seven billion people, are Coca Cola products, and I think maybe that 3% will go up a little over time.

And I think they've got-- you know, wonderful brands and wonderful acceptance throughout the world. Coca Cola brand itself sold a hundred million more cases last year, I remember, than the year before, and they sold more that year than the year before.

It's a very, very good business-- but it's under more attack. Their-- the tax situation in Mexico, there's certainly-- a lot of groups that are working to-- certainly, not in the interest of Coke. The interesting thing is that diet soft drinks have actually gone down more in this country than--the--sugar drinks, which you wouldn't think would be case, by which your—

BECKY: All the water drinks-- are not carbonated drinks--

BUFFETT: (UNINTEL) way up--

BECKY: --have gone way up.

BUFFETT: Well, water-- water's gone way up. But still, close to a quarter of all liquids consumed in the United States are carbonated soft drinks.

BECKY: Wow.

BUFFETT: You know, I drink five a day and I'm feeling good.

BECKY: Yeah, you had two on the set with you this morning.

BUFFETT: Yeah, well, and I'll finish 'em, too.

BECKY: Let's go back to activist investing, I want to apply it to another situation.

BUFFETT: Sure.

BECKY: Apple has also been the target of an activist investor, Carl Icahn, who was pushing for them to do something to bring back shareholder value, in terms of buying back stock. He's actually dropped his proxy-- request that he had on. The company has spent a lot of money buying back shares. What did you think of that whole situation--

BUFFETT: Well, I think that what they've done is probably pretty sound-- but shareholder value, taking shareholder value doesn't mean doing something to get the stock up tomorrow. I mean, shareholder value means building the most value over a five or ten-year period, that you can do with the resources, it's your command-- and that does not mean trying to-- every-- every day, to have the stock go up.

And-- the whole firm shareholder value sorta puzzles me a little. I mean, the way we build shareholder value at Berkshire is by building the earning power over 49 years and-- you know, any given day, that-- that he's splitting the stock, I'm not sure that that would mean anything, anyway, but I have a lot of suggestions along that line.

So what if the stock goes up? I mean, that's good for the stock people that are leaving. And it's bad for the people that are entering it, you know, basically. What you really want to do is build earning powers, sustainable earning power over time. And my guess is, at Apple, they're working very hard on that.

BECKY: Yeah, we had a question that came in from Simon Chow, and we know you're a huge fan of Breaking Bad. He writes in: "What lessons or situations from Breaking Bad do you think are most applicable to investing?"

BUFFETT: I'm not sure all I know is, I should call Saul if I'm in trouble.

BECKY: All right, well, we're going to continue this conversation in just a moment. Again, Warren Buffett is with us today and Joel, we'll send it back over to you.

JOE: All right, all right, Becky? I'm gonna ask about what he's watching now, but-- get-- maybe to get that, we gotta take a break.

BECKY: Well, welcome back to a special edition of Squawk Box, we are sitting down with Warren Buffett of Berkshire Hathaway this morning, wrapping up what has been three hours of him answering your questions. And Warren, we do have other questions that have come in, I know we're not going to get through all of them, but Ben Sigel wrote in with a specific question-- about-- a Berkshire company. He wants to know: "Were Warren and Charlie aware of, before the recent change in policy, that Business Wire was selling access to high frequency trading firms?"

BUFFETT: No, I--didn't know. It's-- important to realize though that Business Wire sells to thousands of people and they-- it's all simultaneous, so no high frequency trader ever was getting information a thousandth of a second before the others. But they apparently were working with it a little faster when they got it. So anyway, when we found that out, we cut 'em off, anyway. But they were-- they were getting simultaneous delivery not early delivery.

BECKY: And I guess the question would be, though, if they could get simultaneous delivery as the wire service, anybody relying on a wire service would have a slower of gateway, by a fraction of a second.

BUFFETT: By a fraction of a second.

BECKY: Yeah, and maybe that's where they were making hay with it. Another question came in from-- our Robert Frank, one of the reporters at CNBC, and-- he covers the wealthy, he-- brings up the question, "You and Gates have been number one and number two at the top of the Forbes U.S. Billionaire List for years now, what year do you think someone else will break the duopoly at the top and who will it most likely be?"

BUFFETT: I really-- I can't tell you who's-- you know, three four or five-- you know, I'm-giving away stock, Bill gave a way lot in the past and he'll give away more in the future. So it-- iwill be-- it will probably be somebody who isn't giving away as much. But I-- don't know who that'll be.

BECKY: Okay, Joe has a question.

JOE: Yeah, just a quicker one, just getting back one more time, that-- you know, if anyone would see the effect of climate change I would think Berkshire would, in terms of-- especially because we've built out the population so much bigger and we've built in areas where-- you know, years ago, maybe you wouldn't have seen property casualty claims and now it seems like you would see 'em.

With-where CO2 levels are, are you surprised you haven't seen an effect and would you be absolutely shocked if they have to pair back climate sensitivity models to CO2? I mean, are you-- a firm believer that you're gonna see events in the future?

BUFFETT: What I think—I'm no physicists-- Joe, and you know, so I-- all I'm doing is reading--

JOE: look there's no climate scientists aren't physicists, either, that's one thing we know for sure.

BUFFETT: Yeah, but I think-it's- the kinda question that deserves lots of attention. In terms of our insurance business, it has no effect, in terms of the prices we're charging this year versus five years ago, and I don't think it'll have any effect on what we're charging three years or five years from now. But I do think that-- that-- you know, we do have one planet, and I think we outta pay a lot of attention to what's going on--

JOE: I agree, I agree.

JOE: We've gotta make sure that-- that we're focusing on the right-- things, though, in terms of keeping the planet livable, I agree, wholeheartedly, thanks, Warren. Anyway, do you-- is there anyone that we don't have on our list of 25? Any outliers that you think that we should have that will revolutionize-- business and-- and just the world? You've probably seen that list. You're on it. I'm-- I'm sure you're gonna be there as a Graham and Dodd (PH) genius.

BUFFETT: Yeah, well, Charlie Munger is my man.

JOE: Yeah, that's good. Have you thought about me at all or no-- but probably-- not in your will or on this list, you haven't thought of me, have you? I'm just chopped liver--

BUFFETT: I'll tell ya this, I--agree that I'll put ya either in my will or on the list, one of the two.

JOE: Okay, all right.

BUFFETT: But - I'll make the decision.

JOE: All right.

BECKY: Warren, before we go again, for the people who weren't tuned in at the very top of the show at 6:00 AM Eastern-- your thoughts on what's happening with the economy right now? Because probably the biggest question that a lot of people are wondering in the economy is, have we seen a significant slowdown from the fourth quarter, third and fourth quarter of last year? What- do you think, based on what you're seeing in the businesses?

BUFFETT: I don't think so, except to the extent that whether it does hit certain types of industries. But my impression is that the American economy for five years, has been moving at a fairly steady rate, upwards, not as fast as people would like. But-- I think that absolutely continues now.

I mean, I think we're moving ahead at a couple of percent a year; and incidentally, a couple percent a year, if you have 1% population growth and 2% gain in output, it means that in a generation, you have a 20% gain of output per capita in the country.

That is not bad. I mean, at any other time in the history of the world almost, that would have been Nirvana. So if we have 20% more, I'll put for your children where we have today, and they have 20% more in the next generation. That is not bad, and we're on a cliff that's somewhat better than that.

BECKY: And-- finally, just looking at the stock market today, there have been a lot of people nervous about what's happened in-- in the situation in the Ukraine. You would tell them?

BUFFETT: I would tell them it doesn't change anything. If you've got-- if you've got a wonderful business of your own, you know, in Peoria, Illinois, why in the world would you sell it today because of what's happening in the Ukraine? If you've got a farm that's producing for you, if you've got an apartment or house that's fully occupied, why in the world would it sell it today because of what's happening in the Ukraine?

The same applies if you have a wonderful-- a piece of a wonderful business or a piece of many wonderful businesses. People do-- they react too much to short-term things in the stock market, whereas, they behave quite rationally when they get into other investments.

BECKY: Well, Warren, I want to thank you for being so generous with your time today.

BUFFETT: Thank you.