

*Below are my notes from the day in Omaha. I apologize for any misquotes / misrepresentations in advance. This transcript is merely a compilation of my notes from the day, and may be incomplete.*

### **Tour with Bob Batt, Executive VP – Nebraska Furniture Mart (“NFM”)**

Insights about NFM:

- Sits on 77 acres of land and has experienced 75 years of profit
- Has an employee with a tenure of 53 years, aged 88 years
- Views competition as anything that involves use of discretionary income
- Constantly working to improve operational efficiency by benchmarking with world class organizations such as GE and Disney
- Globalization
  - 95% of NFM furniture is made in South East Asia, so globalization is very relevant
  - When asked about the issue of being socially responsible versus making profits, Mr. Batt responded, “social responsibility is not mutually exclusive from profits.” In fact, NFM inspects all factories they buy from, and does not work with any factories that utilize child labor.
- Key to Success: “Sell Cheap and tell the Truth” – Mrs. B (Founder of NFM)

### **Q&A with Warren Buffett – Cloud Room, Kiewit Plaza (Berkshire Hathaway HQ’s)**

#### **Question # 1: Comment on the Financial Crisis**

The conversation began with a question about the financial crisis we are currently experiencing. He started with a joke: “Did you hear they had to call off the Wall Street Christmas Pageant this year? They had trouble finding three wise men.” He continued to reiterate comments on the general economy that he made in a March 9 2009 talk he did on CNBC (full transcript can be found at <http://www.businessinsider.com/buffett-breakfast-on-cnbc-transcript-2009-3>), so I will not re copy those comments verbatim.

He did highlight that our economy will do well overall in the long term. He noted that in the year 1790, the population in the United States was 4 million. Since then, the standard of living has increased 7 to 1. No other country has experienced such success, which is a testament to our system. While the “machine gets gummed up from time to time” it does work.

#### **Question # 2: What is the First Question you ask in Interviews**

Again, he began with a few jokes. He said to avoid this question all together, do not hire anybody! More seriously, he continued, in business, it is important to “find people that have passion.” He gave the example of his experience during the Salomon Brothers crisis. He said, in 1991 that he got a call from John Gutfreund and Tom Strauss telling him about the scandal they uncovered. Amidst the frenzy, Buffett had to choose a replacement for Gutfreund, who

ultimately resigned. He had to select a person among a group of 12 very smart people, 3 of which he knew personally. After meeting with each person for 15 minutes each, he asked himself the question: "Who is going to go into a foxhole with me?". The person he ultimately chose was the one he thought was the highest quality person as a human being – not necessarily the smartest person.

Continuing with this theme, Buffett mentioned a poignant definition of success that he learned from Bella Eisenberg, a Nazi survivor who lived in Omaha. In a conversation with Buffett, she mentioned that after going through the Nazi camp, she realized that it was very difficult for her to make friends. The reason is that she would also ask herself whether or not [they] would hide her. Buffett's takeaway was that you should always be a person that would hide someone, and the true definition of success is having people that would hide you.

Finally, Buffett used this topic to get in a joke about marriage. He said "to choose one that will last, look for one quality: low expectations!"

**Question # 3: Why did you choose to use an Open Call to fill the position of your replacement**

Primarily to "cast a wide net." Buffett knew people would like to do the job, but he was not sure if people felt comfortable asking for the role. By taking the open call approach, he removed any possible inhibitions interested people might have.

**Question # 4: How do you value gold**

Buffett commented: "Absent the total destruction of paper money, gold is a terrible investment." He mentioned that people think that gold is a good way to hedge, but he challenged that belief and said that the best protection in an environment like today is to retain enhancing purchasing power. Gold is an instrument that fails to really do this, has "zero utility" and only "mystique."

**Question # 5: Main Challenges to United States Competitiveness**

Buffett said that the United States will always face challenges, which is not necessarily a bad thing. In order to stay competitive, the United States will need to continue to increase productivity. Competition helps in this regard, and helps everyone, not just the United States.

He continued by noting that protectionism is not the way to go. He gave the example of Berkshire Hathaway (the Mill business), and how over time, the business was simply less competitive than overseas players – they were just far more effective in terms of cost. Things like this are part of business cycles, so instead of using protectionism, the United States should "build safety nets" for people that lose their jobs and have an inability to re-train for other jobs that are created.

**Question # 6: How would you define freedom**

He struggled to answer this question, but did mention that no one has 100% freedom. With this caveat, however, he did note that he believes the United States is enormously free.

**Question # 7: Should young entrepreneurs hold off in this environment or take the risk**

Buffett equated holding off to “saving up sex for old age.” Clearly, it does not pay to put things on hold in his mind. He did caution, however, that young people should not use a great deal of leverage to get ahead.

**Question # 8: What are business schools failing to teach**

Buffett believes that to be successful in investing, you only need two classes: one to teach students how to value businesses, and another to teach students how to think about securities and the markets. He said that business schools in general fail to give oral and written communication enough emphasis, as this is typically “beneath schools.” Finally, Buffett thinks that classes on effective persuasion, etc. would also be worthwhile.

**Question # 9: How do you align the interests of your managers and reinforce the values you have worked so hard to instill at Berkshire Hathaway**

Every two years, Buffett writes a letter to each of his managers where he emphasizes that the firm is extremely well capitalized and that they should never make a business decision that will compromise the firm’s reputation because you can never trade that for anything. In three words: “clarity, repetition, authentic.”

“Run the business like it is the only asset your family can run for 100 years.”

“Talent is too scarce to be discarded while useful.”

**Question # 10: How do you think about Emerging Markets**

Investments in most emerging markets are too small to have a meaningful impact on Berkshire Hathaway (minimum is \$1 billion market cap). Ultimately, however, Buffett invests where the odds are different from expectations.

**Question # 11: Moody’s is a sizeable investment, can you comment on them given their recent relevance to the financial turmoil**

They were “dead wrong on mortgages.” Buffett continued to say that despite this fact, you cannot fault them for being human, as everyone else in the US during the real estate boom, was suffering from mass delusions. “Wall Street does / will not buck conventional wisdom.”

“Lesson: If you depend on other people’s views, you will do stupid things. Take responsibility for your decisions”

**Question # 12: What is the biggest issue facing Non-profits / anything not government funded in current environment**

Buffett recommended reading Bill Gates recent letter about the Gates Foundation (link: <http://www.gatesfoundation.org/annual-letter/Pages/2009-annual-letter-introduction.aspx>). He said non-profits will basically have to work much harder with less money, which will be difficult in the short term. The American spirit is to give, however, and that will not go away.

**Question # 13: What is important now, that you did not think was important when you were younger**

Understanding human behavior. Buffett spent the last 50 years watching people, including people in corporations, on boards, in politics, etc. Understanding how people are motivated, how they rationalize, etc. is very important.

He continued to discuss an exercise to find the most effective human being. The exercise includes looking for someone in your class that you buy 10% of their future earnings, and at the same time, short 10% of the lowest earner. Buffett is sure that if you were to make two lists, the type of people that would fall under the short list would be people that turn you off. The people on the buy list, however, would be people that don't necessarily keep score.

He mentioned that Tom Murphy doesn't keep score, and that all of these concepts combined are "more important than beta."

**Question # 14: How would you improve the tax code**

Society has contributed massively to the successful, and people that are rich should recognize this, pay back to society, and be thankful.

Buffett thinks that the tax code should definitely be more progressive. He also thinks that we should remove social security tax and instead be more progressive on payroll taxes. He does not think that education should be more expensive if you have children. And finally, Buffett believes that lobby power should be removed, as the bottom 20% (that does not have a lobby) has no chance if this is not enacted.

Buffett took this opportunity to talk about his views on social philosophy, or how the world should be. He asked us to imagine that 24 hours before we were born we were asked to design the world as we wanted it. The only catch was that you don't know what your race, gender, etc. is prior to birth, but you had to live in the world with whatever ticket you got. Buffett thinks this exercise, would force you to construct a truly fair world. It would force you to see a world where lots of goods and services were needed, and a world that would need to find a mechanism to take care of the people that didn't get the lucky tickets. To continue with this exercise, and hit home another point, Buffett continued by asking if anyone in the room was willing to give back their current ticket for the chance at pulling 100 tickets from a barrel (i.e. playing the game again with a 1-100 chance of getting a lucky ticket). No one raised their hand, as Buffett assumed. His takeaway from that was that each of us had won the lottery, and that because of this fortune, we also had a responsibility to give back.

**Question # 15: Would you still make the Goldman investment, knowing how things turned out**

“Yes.” Buffett received preferred shares with a 10% coupon, primarily because the financial system was on the brink of failure. This investment opportunity is a once in 50 year phenomenon.

Buffett commented that he feels that top executives are generally less fearful now than they were in September, however, the general public is more fearful now.

**Question # 16: What is the biggest risk all generations face**

The biggest risk is weapons of mass destruction. In 1945 the Atomic Bomb was created and Einstein quoted: “This has changed everything in the world except how men think.”

The reason why WMD’s and biological warfare type of concerns are the biggest risk is because they defy money and intellect. Buffett himself, with all his money, cannot single handedly eliminate this threat. He is, however, working on reducing the probabilities of this threat.

**Question # 17: We currently have an effective fed funds rate of 0% - won’t this cause more bubbles**

Buffett indicated that the Fed was ready and willing to pump this rate up, at the first sign of sharp inflation / economic stability. He also mentioned that given this phenomenon, banks seem like a great investment as they have an opportunity to exploit terrific spreads.

The consequences of 0% rates, however, are much like those in physics. If M1 / M2 increase, this could very well lead to much higher inflation, which is Buffett’s biggest concern. The 0% rates have also led to a possible bubble in T-Bonds.