



## Our Thoughts and Notes in Omaha

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**William Smead**  
Chief Executive Officer  
Chief Investment Officer

Dear Fellow Investors:

Berkshire Hathaway's (BRK) Annual Meeting was last Friday and Saturday, May 4th and 5th. Our firm thought it would be useful to share the musings of Warren Buffett and Charlie Munger as I recorded them on Saturday. We hope you enjoy.

1. **Buffett--** We are bullish on BRK.
2. **Buffett--** Banks are in fine shape, remarkable improvement.
3. **Buffett--** We are more comfortable with the risk in the US.
4. **Munger--** If you'd have told us that there would be a 50 to one spread between oil and natural gas, we'd have thought it idiotic. It is idiotic to use natural gas at these prices!
5. **Buffett--** Always looking for ways to do insurance better.
6. **Buffett--** Business schools teach a lot of erroneous stuff on investing. **Munger--** Astounding focus on fads in finance theory, mathematically based.
7. **Buffett--** Bigger on wind than solar at Mid-American. Wind doesn't work without subsidies!
8. **Buffett--** We won't use our stock to make acquisitions now!
9. **Buffett--** My doctors own BRK.
10. **Buffett--** We are taking in annuity books in insurance, but only at the risk-free rate.
11. **Buffett--** I would do the same thing today if he were 26. I'd build my track record as fast as possible in the stock picking world. Then move into buying whole companies.

12. *Why is BRK stock at distressed levels?* **Buffett--** It has happened many times! Tom Murphy ran a great business for a long time and it spent time undervalued. Sometimes our price gets silly, Mr. Market analogy. **Munger--** The market is like a psychotic drunk!
13. **Munger--** Make decisions based on what the business is worth. The stock market is the most obliging, because you don't have to do anything. Buy to hold.
14. **Buffett--** In 53 years, never talked about macro-economic affairs in investment decisions! My first stock was bought in 1942 when we were losing the war! We look to value not macro-factors.
15. **Buffett--** Railroads have improved their position greatly in 20 years. Efficient and environmentally friendly. Bought Mid-American at \$34 per share, current value is \$234 per share.
16. **Munger--** Our good fortune is not going away, even if Warren dies!
17. **Buffett--** We think about worse cases more than anyone else!
18. **Munger--** Ebitda Earnings come before every expense that matters!
19. **Buffett--** When we started Berkshire, gold was \$19 and so was Berkshire. It's now \$1650 versus \$121000 as of last Saturday.
20. **Buffett--** I like Wells Fargo stock better. I buy JPM because I can't buy what I'm buying at BRK. Four hundred million shares of WFC, easier to understand. If I wasn't running BRK, I'd own a lot of both.
21. **Munger--** Diversification is good only when it comes through something like BRK!
22. **Buffett--** As long as I have \$20 billion around, I'm comfortable.
23. **Buffett--** Our stock will bob around and a dividend wouldn't affect that bobbing.
24. **Buffett--** If we tell the truth about the value of BRK, we will end up doing well on it.
25. **Buffett--** On newspapers, the newspapers have three problems, two that are hard to overcome. News is what you don't know that you want to know. Rent an apartment, getting a job etc. all of those things have other outlets for that information on a timely cost free basis. Now you don't use a newspaper for many things. Lost primacy in important areas. But still have a lot of things to tell me about local things I can't get anywhere else. Local sports, community news, etc. expensive to produce. Now going on web and giving away their content. Lately, many newspapers have succeeded in getting paid on the net. There is a future where there is a sense of community for newspapers. It's not as bullet proof as it once was. As long as you don't give away your content and have a strong sense of community, the economics will work out ok. We will look at more newspapers to buy! **Munger--** Not lollapaloozers.
26. **Buffett--** Would another leader run the risk of alienating the great managers? No. And no takeover of BRK. **Munger--** I said last night, "the first \$200 billion was hard, the next \$200 billion will be easy".
27. **Buffett--** Cash consuming businesses are unattractive unless they provide a good return on the capital consumed! Very few capital consuming companies are interesting if you want to earn more than 12 percent.
28. *Rate of growth to float?* **Munger--** It will grow, but not as fast in the past. Current float \$70 billion. Insurance is not a great business.
29. *How do you value declining businesses?* **Munger--** Not as valuable as growing businesses! Newspaper is a declining business, but the price we pay determines how we will do. A cigar butt type of business. **Buffett--**

We are specialists in declining businesses. Textiles, shoes, department store in Baltimore. Diversified Retailing. We were masochistic and ignorant in the early days.

30. *What about Google and Apple?* **Buffett--** We stay away from what we don't understand, I mean we can't understand their next ten years of how they will earn money. I guarantee that in the thousands of potential ideas that the new issues won't be the best one. We don't have to do too many things well.
31. **Munger--** Rule of thumb-avoid large commissions! Look at what other smart people are buying!
32. **Buffett--** We own 8 companies inside Berkshire Hathaway outright big enough to be in the Fortune 500.
33. **Buffett--** We have 500 Dairy Queens in China!
34. *Is Google inevitable? Apple?* **Buffett--** They are extraordinary companies, I would expect them to be more valuable in ten years, but not for me to understand. The chance of being way wrong is lower with IBM than Apple or Google!
35. **Buffett on BNSF Railway--** I talk to Matt Rose about once every 3 months. Economics are overbearing politics.
36. **Buffett--** Relative performance of book value versus S&P 500. Our book value comparison is less flattering than our stock price change.
37. *Do the units of Berkshire Hathaway share information?* **Buffett--**We don't! **Munger--** We want our managers to feel the same as before they sold to us.
38. **Buffett--** We would not consider synergies. We have never found a forest products company that the math was compelling.
39. **Buffett--** We think about the worst case and add a margin of safety! We don't have to stretch. Your returns will be penalized by our over-conservatism. **Munger--** To a man with a hammer, every problem looks like a nail. **Buffett--** Mathematicians talk about fat tails, but they don't know how fat!
40. **Munger--** I don't think there is another insurance business more willing to shrink if the new business is unprofitable.
41. **Buffett--** Fannie and Freddie are a mess. We don't have a structure yet to finance mortgages. It's important that you have a market for secondary mortgages. **Munger--** We departed from sanity in the mortgage business in the US. Greenspan thought an ax murder in a free market was okay.
42. **Buffett on Todd Combs and Ted Wexschler--** We've seen hundreds of good records in money management and have hired very few people. Same pay system for Lou Simpson. They have a bigger universe than I do. **Munger--** Ninety percent of US managers would starve on our managers pay system.
43. **Buffett--** BRK is a good investment in every aspect of the company.
44. *On allocating capital, managing risk, and executive compensation.* **Buffett--** Charlie and I don't need the money. We get to paint their own painting. So do our managers. We give them the paint and the paint brush. I am the compensation committee. **Munger--** Prostitution would be a step up for compensation consultants.
45. **Buffett--** 2.5 percent real growth is very remarkable for a country with one percent population growth. It would be nice to grow at 4 percent after what happened. The US has all kinds of strengths. If you'd told my parents that we'd have six times the output when I was 81 they would have been surprised. We're a very mature economy with a strong social safety net. **Munger--** That's what happened in the housing boom, we wanted more than the economy could provide.

46. **Munger--** The market is going to do what the market is going to do. If you are short term natured you aren't very welcome in this room.
47. **Buffett--** If we paid dividends our shareholders would be worse off! Mid-American can use \$100 billion in capital in the next 20 years and provide an attractive return.
48. **Munger--** Each decade Warren had to learn things that he had to learn to continue to succeed.
49. **Buffett--** We avoid mistakes which could hurt our ability to play tomorrow. I've learned more about people. I am a better judge of people than 40 years ago. **Munger--** We like to learn from other people's mistakes.
50. *Moats-Can they be created?* **Buffett--** No, we buy them. **Munger--** One competitor can ruin a business!
51. **Munger on BYD Company (BYDDY)--** Fleets in California. BYD has 170,000 employees. We should subsidize electric cars. Charlie is not expecting a sudden revolution in electric car use.
52. **Buffett--** Our cost of float is negative and the chances are high of staying that way.
53. *Energy independence and trade deficit.* **Buffett--** If our production increases and price drops it helps a lot. **Munger--** We'd be much better off to use their oil and not ours. Single most precious resources are our hydrocarbons. I have the exact opposite opinion of everybody else on oil and of course I'm right.

As we execute our discipline for selecting stocks and managing our equity portfolio we were very encouraged by the thoughts of these two very successful investors.

Best Wishes,

***William Smead***

The information contained in this missive are notes taken by Bill Smead at the Berkshire Hathaway annual meeting. References are not direct quotes but paraphrased interpretations of the speakers' speeches and should not be considered SCM's opinions or individualized investment advice. Past performance is no guarantee of future results. Berkshire Hathaway is currently being recommended for suitable clients as of the date mentioned in this missive and does not represent all of the securities purchased or recommended for our clients. It should not be assumed that investing in these securities was or will be profitable. A list of all recommendations made by Smead Capital Management within the past twelve month period is available upon request.

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