

**2008 Berkshire Hathaway Shareholders Meeting**  
**May 3, 2008**  
**Omaha, Nebraska - Quest Convention Center**  
**Attendance: 31,000 estimated**  
**By Gordon Nihei**

**Most Influential Book**

Intelligent Investor – Graham & Dodd

Especially chapters 8 and 11. 3 big lessons in these chapters:

1. View stocks as an investment in a “business”, not as a “quote”.
2. The stock market is there to “serve” you, not “instruct” you.
3. Insist of a margin of safety on your investment.

(Buffett’s investment approach – Find a business you understand that has an enduring competitive position, look for admired and trusted management, wait for the right price and hold for the long term. Time is the best friend of a great business)

**Cologne Re**

Berkshire owns 100% of General Re who interns owns 95% of Cologne Re. Berkshire has a process in place that will result in owning 100% of Cologne Re.

**Finding and retaining managers**

We at Berkshire “Cheat”. We buy businesses with great management in place. We have seen their record and they come with the business. Look for their human qualities such as their integrity and also their ability. So much of an organization’s performance depends on the “character” of the organization and the culture of the management team.

Our job is to make sure they have the same enthusiasm. We look for the passion in their eyes and have to create an environment to keep them happy. At these meetings we tell them what a great job they are doing and how much we appreciate them.

We let our managers run their businesses. We ask them to send us a letter once a year naming their successor. We tell them we have all the money we need and we never want to trade reputation for money. (This is why Buffett’s testimony to congress is shown every year at the shareholder meeting. It is a reminder of how important reputation is. “Lose money for the firm and I will be understanding. Lose a shred of reputation and I will be ruthless.”)

There are no budgets, we have no incentives to cause people to do anything or push people to play games.

### **Using stock options to buy or sell a stock.**

Berkshire “once” sold put options to buy a stock. Buffett generally feels it is best to just buy or sell the stock without using options. Keep it simple.

### **Investment Expectations**

Berkshire would be happy if we could buy pretax returns of 10%. We now operate in a universe of marketable stocks with caps of \$50 billion. A 5% investment in a \$10 billion cap company is \$500 million. If it doubles our after tax return is \$325 million which is 2/10 of 1 percent of Berkshire’s net worth. We have to find big investments to move the needle.

Anyone who expects Berkshire to replicate the past should sell their stock. We will get decent returns, but not indecent returns.

Charlie: You can take Warren’s promise to the Bank. We are happy making money at a lower rate in the future and suggest you adopt the same attitude. We like buying good size to very large with good management. Nice formula, it should work well over time.

### **Life Advice**

From the moment we get up, till we go to sleep, we are associating with “wonderful” people. This is as good as it gets in life!

We are blessed; we live in the best country in the world. There is no reason to look at minuses in life. I would be crazy.

You have to find your passion in life. Go to work for an organization or an individual you admire.

Get the right spouse! Charlie talks about the man who spent 20 years looking for the perfect woman and found her. Unfortunately, she was looking for the perfect man. If you are lucky, you will be happy and as a result you will behave better.

You will do better if you have passion for something in which you have aptitude.

### **Long/Short Investing**

130/30 is being marketed today. No great statistical merit to it. Just the idea of the day.

If you have good ideas on businesses that are undervalued, it is not necessary to short.

Charlie: We made our money by being long wonderful businesses, not in long/short.

## **German Fixed Income Market - Dislocation**

We haven't invested in it. We don't play with that, because we don't have enough time to look at everything. If you spend enough time you may find those that Charlie and I can't find because we can't look at that many things.

Charlie: It is interesting how brief and extreme some dislocations are. It is caused by forced selling. The moves are fast and short. You must think and act quickly. You have to be like the man who stands by a stream and the fish comes by once a year.

Very big dislocations happen about twice a century.

## **Growing a small business into a large one**

Berkshire was once small, it takes time. Nothing magical. In a general way we have done the same things for years.

Charlie: It is the nature of things that most small businesses will never be big. It is the nature that most big business fall into mediocrity or worse. Berkshire has only made one new business, and that is the reinsurance business run by Ajit.

Ajit did \$400 million in the first quarter of this start up. They did 278 transactions with a staff of 29 to 30. All the business was from people who needed insurance. In every case they had insurance from others and were rated AAA, so we paid if the muni and bond insurer did not pay. We wrote the business for 2.25% where the original reinsurer charged 1%. (Reflections of a very dislocated market.)

## **US Dollar**

US dollar will follow policies that will make the USD weaker over the next 10 years. I don't feel the need to hedge. We are not in the business of hedging currencies.

## **Diversification**

The know-nothing investor should practice diversification. It is crazy if you are a professional or expert. The know-nothing investor should buy a low cost index fund.

## **Oil**

Oil will not run out. Productive capacity will level off and decline at some point. The world will eventually adjust and demand will taper off. There is nothing you can do over the short term to wean the world off of oil.

Charlie: Oil production in 25 years will be down. (This is significant when considering the rising economies of China and India)

## **Taxes**

Buffett: Super rich should pay more. Middle class a little less.

## **Investment Banks**

Large Investment Banks and Commercial Banks are almost too big to be managed effectively. In many ways, there are firms that in terms of risk are too big to manage.

All Banks have risk models but they don't have the faintest idea. Need someone you trust with analytics, but also ability to contemplate new possibilities and risk. That is a rare quality. That inability to envision something not in the models can be fatal.

Charlie: The Chief Risk Officer is often the man who makes you feel good while you do dumb things.

## **Food Business**

Most of the food businesses with strong "brands" as leaders are good investments if you don't pay too much.

A "brand" is a promise.

## **Investment Decisions & Process**

First question. Can we figure it out? We don't worry about stuff we miss. If we can't make a decision in 5 minutes, it is unlikely we will be able to make an intelligent decision in 5 months.

Charlie: We can make a lot of decisions about a lot of things very fast and very easily. Reason is that there are such an enormous amount of things we don't look at.

## **China & Imperfections**

China is moving in the right direction with human rights. The US only started allowing women to vote in the 1920's but we would not have wanted to be banned from the Olympics. Over time China will get better.

Charlie: I ask, "Is China more or less imperfect as decades have gone by? Is it moving in the right direction? It is moving in the right direction. That is a good thing and it is not good to pick the worst thing about a person you don't like and obsess about it.

## **Investing in Banks**

So much depends on the character of the institution. It will be a reflection of the CEO. You should know the culture of management and the institution.

There was a wise man that said there are more banks than bankers. If you think about that a while you will get my point.

## **Successful people**

Not the person with the highest IQ, but the person who is most effective. The one you want to be around. These people are easy to work with, on time, not claiming credit and helping others.

## **Recommended Reading**

2 books by Cialdini – “Yes” and “Influence”

## **Credit Default Swap Market**

\$60 Trillion in notional value. However, unlikely to cause the same chaotic conditions as the sub-prime crisis. The system should be ok because as one loses money another makes it. Would have been a problem if BSC failed since they were a counter party to a derivative book.

Fed did the right thing in stepping in to save BSC otherwise it would have been damaging to the system. System risk of failure is behind us.

## **Investment in Pharma**

We have a group of companies bought at a fair price that overall will do well. We don't know the answer about the pipeline so a group approach makes sense. (Positions in JNJ and Sanofi-Aventis)

## **Future Hope and Expectations of Berkshire**

Buffett: I hope for decent performance and that the culture is maintained – we are shareholder and manager oriented. We want to be the best home in the world for wonderful family businesses. We have great candidates to succeed me.

Charlie: I would like to see Berkshire even more be deserved as an exemplar and that we have even more influence on changes in other places.