

Berkshire Hathaway Annual Meeting
April 29, 2000

I tried to provide an accurate and detailed, transcript of the annual meeting. I have used Mr. Buffett's and Mr. Munger's words as much as possible in this transcript. In some instances since I am not the fastest (or best) shorthand person in the world I have had to provide an abbreviated version of their replies. If anyone finds any content in this transcript that is wrong please contact me immediately.

Question: What is the definition of Value vs. Growth stocks?

WEB: No two distinct categories of business. PV of cash a company generates is what the business is worth. No distinction in our mind between growth & value. All decision you decide how much value you are going to get. When we buy a stock we think of it in terms of buying the whole enterprise.

WEB: Esop's wrote the first investment primer "A bird in the hand (Lay out cash today) is worth two in the bush". Esop forgot to say when you get the two in the bush and what the interest rate was. People associate growth with the birds in the bush but they still have to figure out when they get the birds. People often are not thinking of the mathematics implicit in what they are doing.

CM: All intelligent investing is value investing; then acquire more than you are paying for. Investing is where you find a few great companies and then sit on your ass.

Question: With speculation in the high tech area, what are your views on a crash?

WEB: Any time there have been real bursts of speculation in the market it does get corrected eventually. (He gave the Ben Graham voting machine quote). No wealth created just an enormous transfer of wealth. Money has been destroyed by the frictional cost of trading.

We had a mania in farmland in Nebraska, land prices spiked and when farm prices went down a lot of people and banks were devastated. A huge number of participants creates it's own truth for a long period of time.

CM: Wretched excess, retched consequences. Mixing ponzi schemes with good possibilities of internet. When you mix raisins with turds, they are still turds.

Question: Worried about how tech will affect investing

WEB: No religious belief that we will not invest in tech, just can't find one where we think we know what the bush will look like in ten years or how many birds will come out of the bush.

I have talked with Stan Lipsky at length on how the internet will affect Buffalo News, what they can do better, etc. The internet can deliver news with no incremental cost, it will change the newspaper field dramatically, people are essentially paying prices for newspapers that don't reflect their future.

Question: Berkshire had a positive gain in book value of 1/2 of 1 percent in 1999. Could have ended millennium better.

WEB: A one-year measurement is not important. Not a good measure of business performance. (He discussed Coke's 50% market share and Gillette's 70% market share of blades).

CM: Very interesting stretch, we have extraordinary liquidity, give us reasonable opportunities and we are prepared.

Question: Is the skill of judging risk just as important as calculating intrinsic value?

WEB: We perceive risk as items that impair future business. Wants to have mathematical risk on their side over a group of decisions. Not in the business of assuming a lot of risk in business. We look for moats around businesses. We look for castles (businesses) that have a moat surrounding it which is expanding as a primary consideration of a great business.

CM: How can you say it better?

Question: Activities before/after Gen Re acquisition. Unicover situation.

WEB: Unicover was a mistake that should not have been made. We made a mistake in the mid seventies that if it had not been made Berkshire would be worth 10% more today.

Insurance will be a great business over time for Berkshire. The float won't cost zero like it did in the past.

CM: All that said perhaps the most irritating way to lose money is to be taken by an obvious lie.

WEB: Insurance is a field that attracts shady people.

CM: Warren caused me to meet a fraud insurance person many years ago, insured concrete materials underwater.

WEB: Thinking can screen out shady people pretty well.

Question: Concerning Buffett Partnership Rules & Fees

WEB: Never any guarantee of a six percent return, it was guaranteed that I would follow a common destiny with the partners. It was started by accident, had 11 different partnerships that were made into one. 6% profit, carry over all deficiencies.

Question: Danger of having wonderful business is paying ??? businesses.

WEB: American Express, think of mind share because businesses all follow. People have favorable feelings about Coke. They have special opinion of American Express's financial solidity. The credit cards were originally a defensive move, they charged more and still gained share on market leader. This is a great type of business. Think if American Express is managed properly it can develop into an inevitable.

If a company can survive hard times and still survive, this is the sign of a good business. Look at America Online, it had service problems and look at how it's subscribers were still growing in numbers. Good way to see depth and impervability of moat.

CM: Could be easier to destroy American Express's float, I think American Express made an intelligent decision with Costco stores.

Buffett: Costco is a great business should have owned Costco, Charlie was for it but I blew it.

Question: About earnings growth and what PE threshold used...

WEB: No cutoff for a PE ratio, bought Geico when was destined to lose a lot of money in near future, thought it had a significantly better future.

We look at capital allocation as a business decisions.

We have in mind a stream of cash that can be discounted.

CM: A business with something glorious underneath disguised by bad times...

Question: Upset because have spoiled shareholders by having them expecting a 25% return.

WEB: Look at business value entirely when calculating net worth. It was a lousy year in 1999 but stock price did not track business value.

Someone down the street can make money faster in a way you can't understand you still feel bad to leave money on the table.

Question: How is BRK planning with economic situation in mind?

WEB: Don't think much about economics. Focus on what's knowable and important, with Coke it's that more and more people will drink more and more...

The best times to buy stocks in recent years were when interest rates were very high.

Question: Annual Report & major investments (Disney and M&T Bank)

WEB: (Standard "no comment on holdings" comment) M&T is a terrific bank, the CEO increased ownership through own money, not options. Disney ownership feel through our reporting level. Doesn't think the general ownership of equities will be very exciting over next 10-15 years.

CM: Equities in general, in for reduced expectations in future, life is better with reasonable expectations. Warren's Fortune article is a must read.

Question: Dividend Policy?

WEB: We will either pay large dividends or none at all if we can't obtain more money through re-investment. No logic in paying 20% of earnings out in dividends every year.

CM: If went to leading schools, they wouldn't teach the dividend policy this way.

Question: How many insurance companies does Berkshire own. Criteria for making purchases well discussed but what are your criteria for selling previously purchased companies. Do you agree with Philip Fisher's two reasons to sell?

WEB: To sell the business is written in the ground rules. Never going to be a takeover, sell business because street thinks unfocused. I don't quite agree with Fisher, think can ride some stocks forever.

CM: Better off when you had 50 years ahead of you. Almost never sell operating businesses, and if we do, we do so because they can't fix the problem.

Question: Gen Re compensation plans and compensation in general

WEB: It is a huge advantage for Geico to have a rational compensation plan. Tech compensation is like lottery tickets (options).

CM: Very much out of step with the world, promising free medical care forever is kind of insanity. There is lots of insanity on the pay front.

WEB: What has happened at the top levels is really unbelievable.

Question: What is IV of company? Can you use book value as a guide to company valuations?

WEB: Really wonderful businesses need no book value. Book value is not a great proxy for intrinsic value and it is not a substitute. Berkshire was not worth book value in 1965, intrinsic value was below book value, now the business is worth a great deal more than book value. Book value is not a bad starting point for Berkshire when trying to calculate intrinsic value. We generally do not look at book value when evaluating a stock.

Question: Ben Graham's Lab Experiment, Breakdown of Margin of Safety

WEB: Can see anything in markets. Don't see any cases of incredible under valuation, if we did find it they probably will have been bought out.

CM: Present time is a very unusual period. Residential real estate and common stock value grew so quickly.

WEB: Company's that themselves couldn't borrow 100 million and is worth billions. Most extreme time period, even including the 1920's.

CM: I think it's the most extreme period since modern capitalism, the 30's created worst depression in 600 years. This time period is almost as extreme as 30's but in a different direction.

WEB: Doesn't make it easy to predict an outcome. No question in last year the ability to monetize (sp?) shareholder ignorance has been exceeded.

Question: Berkshire is tactical in insurance, not mainstream, how will this result in growth of float over time? What about newspapers transforming?

WEB: I think the Buffalo News will do as well as top 50 newspapers in making transformation. One of the problems of capitalism is the ability to copy; the internet accentuates this copying. Newspapers are trying to figure out how to be relevant in a new medium.

It will be average in insurance, it's a commodity business. I think Berkshire does not have an average business, we have things we bring to the party that makes us better than average. I think insurance will be a good business over the long run.

CM: He made a comment about the death of trading stamps and advised we should let some businesses die.

WEB: It's very, very rare to do this.

Question: Sustainable Competitive Advantage asked if had read Michael Porter.

WEB: I think alike with Porter, think what he writes would be useful for investors to read. Study people who achieved competitive advantages, what gave them a moat. Study Mrs. Bee who turned \$50 into a fantastic business.

CM: Every business tries to turn this year's success into greater success the next year. Defended Microsoft.

Afternoon Session

Question: Stock Options

WEB: Companies attempt to use lowest cost assumption possible. To value them make an average amount assumption, figure out what could have sold stock in market, about a 1/3 of market value of strike price would be your expected cost. Think we will see lots of option pricing.

CM: Warren's critical attitude is somewhat understated compared to mine.

WEB: Options subtract value the moment they are granted.

Question: Dun and Bradstreet competitive advantage, how deep is the moat around Moody's?

WEB: The moat is far wider and deeper in the case of Moody's than the operating company.

CM: Moody's is like Harvard, a self-fulfilling prophecy.

Question: Investing in fuel cell and environmentally friendly companies.

WEB: Energy and transportation are areas we can understand, though less in connection to new technology. Think management at MidAmerica can manage effects of new technology. Historically transportation field is a terrible place to have money. Railways have very heavy capital requirements.

Question: Doug Ivestor's Pay package

WEB: I supported Ivestor's pay package, not on Coke's compensation committee. He was a huge asset. The package was part of his contract made during Roberto's rein. I thought Daft was right for the job, not right man to take over Coke at the time though.

CM: Generally speaking I think it's a mistake to create hostility by this pay package. This stuff sold by damn consultants.

WEB: I never had to commit a pay situation to writing. Proxy letters have resulted in an increased cost of compensation because they (CEO's) can look and ask why their pay wasn't comparable.

Question: Deflationary trend in global economy?

WEB: No good on macro economy. Pays no attention to his own economic predictions. Banks are cutting costs they normally would not to make a reason for mergers. Economic departments he has always regards as a bunch of nonsense.

Question: Bill Gates & Warren at Washington

WEB: It does pay to have the right models, they have never let me down. Write down the reasons you admire someone and figure out why you can't have them.

CM: No reason to look at only living models, they are plenty of great dead ones.

Question: Would you take Mr. Greenspan's job?

WEB: No.

CM: I would say no more quickly.

WEB: We should pay to have this job.

CM: Never wanted to have a job where lying was a required activity.

Question: Reasons to pick good people? Do they have a true love of the business? How to determine if people have this quality?

WEB: Crucial to determine if managers love the business or the money. Likes to think of Berkshire as the Metropolitan Museum of Art of Businesses.

CM: Our ideas are very old fashioned but still work. Can you imagine Andrew Carnegie calling in a consultant? A lot of businesses are kind of cranky and old fashioned and like out style. Maintaining standards is a huge part.

WEB: This is an important part of capital allocation since we don't provide management.

Question: Why don't you understand tech companies?

WEB: Don't understand the economics of tech companies, every business I look at I think of in terms of economics. I think I would be skeptical of anyone who purports to know what the economics of a tech company will be 10 years out.

(Note: I believe a question was asked about Mr. Buffett buying the Omaha World Herald)

WEB: Would not purchase the Omaha World Herald.

CM: Maybe he would have purchased it thirty years ago.

WEB: Internet should not affect float. I don't think industry economics will change that much, think float will be more expensive in the future though. For society internet is a plus, for capitalism will be a negative. The internet, if you analyze it, is much more likely to decrease profits of American businesses. It will make American businesses worth less in the aggregate.

Question: Attacks of moats coming from inside the castle

WEB: Not only looking for castle, looking for a great knight in charge of the castle.

WEB: Voted against compensation levels when on compensation committee at Salomon. Had a good friend bounced off two compensation committees because of his thoughts.

CM: We can confidently expect the compensation situation to get worse; disadvantageous for Berkshire, Berkshire does on occasion get managers that don't like big corporate attitudes.

WEB: Going around condemning people by name doesn't work.

Question: What percent of inflows into stock market are of cash due to retirement fund inflows? What does this mean for the stock market?

WEB: Doesn't mean a thing. Biggest single thing working for young and old is that the pie is getting bigger. It will be easier for productive to help the non productive in future. Society whose output is growing three percent a year when population is growing one percent a year will work out fine.

CM: Interest rates can have enormous effects on stock market.

Question: Buffettology? Any comments?

WEB: Probably the best and most representative book is by Lawrence Cunningham, who took my words and arranged them. I like to think that I did a better job than rewriting my writings (believe he was referring to Buffettology here).

CM: Skimmed that book. What we have done is not all that hard to do or explain but a lot of people just don't understand it.

WEB: Original purchase of Berkshire was a terrible mistake. It was a cigar butt investment. Thought would sell out on a tender offer from the company. I was asked to tender at 11 3/8, he said he would give me that price and when the tender offer came it was a 1/8 of a point below that price and it irritated me. There was a similar situation with Blue Chip stamps. Not the base to build an enterprise around.

CM: Interesting how a wrong decision worked out okay, important to recognize wrong decisions and correct them.

WEB: We started with three disasters; don't follow our example by using this base.

Question: When would you exchange shares for gold?

WEB: The idea of exchanging a producing asset for a non-producing asset seems foreign to me.

Question: Was anyone dumb enough to sell shares back to Berkshire?

WEB: We did not repurchase any shares.

Question: When adding float, how much does this increase intrinsic value?

WEB: We sometimes add float at cost, sometimes not, creating float that may be at zero cost or better. The future cost of float will not be as good as past float. Float (and its cost) is a big part of our strategy.

CM: Amazed at how well float has worked out.

Question: Wesco question, it is trading below intrinsic value, how to manage this gap. Any succession issues?

CM: Pay almost no attention to Wesco price, don't think about buying Wesco stock. Gradually making him useless so he won't be missed. Don't spend a lot of time thinking about things that make little money.

Question: EVA, Quest for Value

CM: Awful lot of twaddle and bullshit in EVA. The game is to turn retained dollars into more and EVA tends to have cost of capital ideas that make no sense. The mental system as a whole does not work, like medieval theology.

Question: Known Bill Gates for a long time, how did the relationship begin...

CM: Silver, so far it has been a dull ride.

WEB: We have swept the world behind (US in tech), we are so far ahead, can't even think who is number two. Basically doesn't think the government should break up Microsoft.

CM: How can someone who gets a government salary decide to break up a company that is doing well.

Question: Geico situation

WEB: Profits are returning to normal, earnings have been far higher than they would have been. Not unhappy margins are going down, we keep adding customers profitably so is fine. Low cost producer is a huge advantage over time. Costing more to develop inquires now than it did in the past. Will take three points of industry price decline; spend lots to bring in business even though it is bringing profits down. Our business model is far superior to others in the market. Tony Nicely is the best.

Question: Intention with MidAmerican Energy. What are its long-term competitive advantages?

WEB: Can't do a great deal with imbedded generation costs, it is relatively well positioned as a generator. Should not expect to make extraordinary profits. That CEO has a good mind and will develop good ideas over time. It is conceivable that we could do more deals here (bigger type deals). We are very likely to get a decent return on it.

Question: Float proceeds going into common stocks?

WEB: Float is in no way limited to fixed income securities because we have abundant capital and other sources of income. We can have it anywhere that makes sense. We look at asset and liability side, our job is to get liabilities as cheap as possible and gets assets used as intelligently as possible. Float is available just like common equity, gives us an edge over competitors.

CM: We have used this edge in the past and hope to in the future.

Question: Comments on branded apparel companies? Future of Freddie Mac (Congress issues)

WEB: Lou (Simpson) runs two billion in investments, which can be expanded and contracted if Lou decides, makes completely independent decisions. Liz Claiborne: I was called on buying a large block, bought block in London. Likes business, not an inevitable type business.

Refused to comment on political situation.

Question: Succession issues (post-truck) and asked about inflation.

WEB: Will have an active management. Inflation doesn't really affect Geico. Could be a lot of pressure on Congress if premiums were to rise due to inflation. Net believes inflation is bad for Geico (not sure I have this last sentence copied down correctly)

Question: Teaching investing in academia, search globally for investments?

WEB: More opportunity (potentially) internationally. Love the idea that products will travel. Amazing how product market segment rate varies from market to market in today's mobile society. See's Candy, even with terrific business in California has not been able to move it out East. Wrote letter to Germany for an offer to purchase a business but has had no response. Missed an opportunity in Japan.

CM: Nothing to add.

Question: Geico's marketing expense?

WEB: Don't consciously make decisions that lead to making 90% on every dollar. Doing things all the time to increase value over time.

Spending lots of money to take NetJets to Europe. Want to give information to investors that we would consider material.

Question: Geico competitive advantage, what affect will internet insurance have?

WEB: Low cost producer providing good customer service is imperative. USAA is very competitive within their specific group. Nobody is better than us nationwide. 21st century is better in their region. Have to select better than average drivers. We are very much about costs, just like Costco who figure out their costs out to hundredths of percent.

When have internet, can click to find out what rates will be, can shop around in their den, makes it important to e low cost company, that is why it is important to build brand. Geico's brand is becoming very familiar.

Question: Ad in WSJ. Real Estate finance opportunities, what are the goals? Has Donald Trump called?

WEB: No he has not called, have about three deals in real estate (100 million plus) willing to put billions to work for right opportunities. Don't care if we make another deal, we will if terms are right. Have a couple of deals going now; three deals are good uses of money.

Question: How important is the structure of your fund?

WEB: We don't think of ourselves in the same business as Tiger. The partnership thirty years ago was structured more similarly. Not a fund, we have operating businesses that generate capital for us to invest. We could easily have 90% of value of Berkshire in companies or 60% of value of Berkshire in equities depending on how market behaves. Not a great tax structure to own securities.

CM: People chasing money not in same world as we are, we are perfectly willing to let something we don't understand to rage on while we miss making that money.

Question: Intellectual honesty, General Re

WEB: Don't believe in buying into organizations to change things, try to buy into organizations that have the same bedrock as Berkshire. Want people to join us who already face reality.

CM: General Re already has behavior like ours. No book recommendations.

Question: Comment on reinsurance business

WEB: Have been in business for 30 years, the reason we have done so well is Ajit Jain. We think we have advantages that make us better than average, we could get killed in any given year though. General Re sometimes does business that is a necessary evil to keep relationships going. We must price with discipline.

CM: Don't think reinsurance is such a commodity business as it appears.

WEB: We have a reputation advantage. Always written checks promptly. Have a huge additional advantage because no volume goals, we report results as they come in.

