

Woodstock of Capitalism

Berkshire Hathaway - April 2022 Annual Shareholders Meeting

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For the 17th consecutive year, Jonathan and I, along with Mike McDonald, Tom Shide, Sue Weeden and Katalina Pavon from our office, in addition to Steve Schowalter (CEO) and his son James (President) of Port Washington State Bank, attended the annual Berkshire Hathaway Shareholder meeting on April 30, 2022. The first 14 meetings were live with the last two years being virtual due to COVID. As Warren Buffett said, after a three-year wait, it's great to be live in person at the CHI Health Center in downtown Omaha, Nebraska.

The meeting featured Warren Buffett (91), Charlie Munger (98) and Vice-Chairmen Greg Abel (60) and Ajit Jain (70) at the same table. As usual, the meeting opened with a 25-minute Berkshire Hathaway video Executive Produced by Warren's daughter Susie Buffett. The video was preceded by Alicia Keyes' great song, "New York", with the word 'Berkshire' inserted instead. Hearing the song made the audience of 30,000 electric. This year's attendance was down about 25% from previous years of 40,000, due to COVID, and was once again available to watch via live-stream.

After the video, Warren, Charlie, Greg and Ajit appeared on stage to a 45-second tearful standing ovation. Berkshire did an excellent job protecting against the spread of COVID by requiring all attendees to register for a CLEAR Health Pass on their cell phone, verifying that attendees had been vaccinated.

The format was different than in year's past, with Becky Quick from CNBC being the only member of the media asking questions that were previously emailed to Berkshire. On an alternating basis, after Becky's question was asked, a question from an attendee was asked.

Warren began the meeting by mentioning that Berkshire Hathaway is being run by two guys whose combined age is approaching 190. Warren joked that shareholders deserve a chance to see them in person, just to be sure they are still alive and functioning, a chance they were denied the last two years due to COVID. As Warren was talking, Charlie immediately began munching on an almost two pound box of See's Candies, washed down with a can of Coke. Berkshire owns See's Candies and 9.2% of Coca-Cola. The sugar high kept Charlie going for hours.

Warren and Charlie had a humorous exchange regarding their age. Warren joked that Charlie likes to say, "All I want to know is where I'm going to die so I don't go there." Warren said that was pretty good thinking to which Charlie replied, "It's worked so far." Charlie loves to say, "Oh, to be 90 again." Warren was clearly in all his glory to be speaking live again in front of 30,000 people. Warren and Charlie proceeded to hold court for six hours, followed by the Berkshire Hathaway annual meeting. Greg and Ajit were only on stage until the lunch break at noon.

It continues to be remarkable how two guys at the ages of 91 and 98 can be so sharp and witty, when the average 90-year old would rather go golfing or fishing (if they could). The meeting also included visiting the convention hall adjacent to the meeting room where there were over 40 display booths of Berkshire's 80 companies (operating subsidiaries). The convention hall includes Warren's favorite Bookworm Bookstore where we could pick up a few new books on the life and philosophy of Warren and Charlie. Our collection in Spectrum's office of Warren and Charlie



books now exceeds 50.

Warren always likes to present a lesson on the history of investing before the question and answer session begins. I doubt if there is anyone more well-read than Warren on that topic. From the age of 6 to 12 he read every investment book in his father Howard's investment office in Omaha. Charlie is likely a close second in reading investment literature and he also likes to reflect on history as they answer questions. They are not only avid readers, but have the amazing ability to retain what they have read. Even at 91, Warren continues to read four to five hours per day.

Warren displayed that he still has physical endurance and mental capacity by readily recalling names, events and data from over time, such as that the interest rate on saving's bonds during WWII was 2.9% or that 15 years ago the Federal Reserve's currency in circulation was \$800 billion. Today, the Fed's currency in circulation amounts to \$2.2 trillion. At 330 million people, that's almost \$7000 for every man, woman and child in the country. A staggering number. No wonder we have inflation.

Warren, however, did defend Fed Chairman Jerome Powell for flooding the economy with cash coming off of COVID to prevent deflation, which is harder to cure than inflation. For example, Japan has been fighting deflation for more than two decades. Warren called Jerome Powell his hero. Warren was so sharp that he only answered seven questions at the morning session, while elaborating for 30 minutes on each topic. Warren and Charlie usually answer between 30 and 40 questions over a six hour period. Below are the answers to some of our favorite questions:

Q: *Warren was asked about two recent investments in insurer Alleghany (a P&C Insurance company) and in Occidental Petroleum. Both acquisitions came shortly after Berkshire's annual letter in mid February of this year stating that he and Charlie had very little investment opportunities to get excited about.*

WB: *Warren noted that the CEO of Alleghany had sent him an annual report that Warren read over the weekend. The report got Warren interested in a company that he had followed for over 50 years. The decision to buy Alleghany was made in a period of two weeks, with Charlie's blessing, for a price of \$11.6 billion, Berkshire's biggest acquisition in six years. Berkshire also bought millions of shares of Hewlett-Packard (HP), Occidental Petroleum and Chevron in the second half of the first quarter, 2022. Berkshire owns 9.8% of Occidental Petroleum. The total investment in the four companies exceeded \$40 billion, including repurchasing Berkshire Hathaway shares, or about 25% of Berkshire's \$160 billion cash position. On May 3, 2022 Berkshire bought \$600 million of Apple stock.*

Q: *Can you explain the inflationary period our country is currently going through?*

WB: *Warren said that "Inflation swindles almost everybody." It's extraordinary the amount of inflation we have seen. Current inflation is a natural result of all the money the Federal Government has pumped into our economy due to the pandemic's sudden impact on people and businesses. If the Fed had not done it, our lives would be a whole lot worse. Berkshire is built to withstand inflationary conditions, just as it proved it could ride out the economic downturn periods of 2000 and 2008. One of the reasons Berkshire was able to ride out those periods is its consistently strong cash position. Berkshire generally stays below 75% invested in individual stocks. The stocks Berkshire owns are all consistently "brand name" stocks, with few exceptions, that tend to hold up better in down markets. The message here is that in today's volatile market, Berkshire is buying, not selling. In the last 60 days, Berkshire has bought stock in two energy companies, an insurance company (value stocks) and two technology companies (growth stocks). Berkshire's stock portfolio is primarily energy, financials, consumer stocks and technology.*

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Q: One shareholder from Nebraska noted that Omaha-based Union Pacific Railroad has been outperforming Berkshire's BNSF Railroad in terms of operating ratio relating to the efficiency of its operations. Greg Abel, who oversees Berkshire's non-insurance businesses praised BNSF's operating performance but also said that more needs to be done.

CM: Greg, would you trade BNSF for Union Pacific Railroad?

GA: Never. We have a great franchise and a great leadership team running it.

WB: A hundred years from now BNSF, one of our country's largest railroads, will be a vital asset to the economy and to Berkshire.

Ajit Jain who oversees the BH insurance operations was asked why auto insurer Progressive recently has been outperforming Berkshire's GEICO, which started doing business in 1936, in profit margins and growth rate. Ajit mentioned that Progressive had a big head start in the use of telematics, which uses the data from shareholders to better understand driving behavior. Ajit said GEICO recently has also gotten into telematics, but it takes time to catch up. It's a long journey.

WB: Ajit is responsible for adding more value to Berkshire than the total net value of Progressive.

Q: How can Berkshire's insurance companies be protected against huge claims in the event of a nuclear attack?

WB: The simple answer is, nothing can be done. If such a horrific event were to occur, you've got other things to worry about than the value of Berkshire.

Given the age of Berkshire's leaders, the question of durability of Berkshire's culture comes up every year. Warren expressed confidence that he has built a company that will endure long after he is gone.

WB: If we have the same culture, we will be here 100 years from now.

Warren's son, Howard, currently on the board, will be in charge of maintaining Berkshire's culture once Warren is gone.

Q: What is your secret to investing?

CM: Investing is not brilliance, it's avoiding stupidity (laughter from the crowd). Charlie is notorious for his short, impactful answers. One of his favorite expressions is "I have nothing to add", which is refreshing when a lot of people just want to hear themselves talk. What makes Warren and Charlie so entertaining is their witty, self-deprecating humor. Adding to Charlie's humor, Warren said, "I will talk more to say less."

Berkshire Hathaway now has over 360,000 employees from 80 plus companies. The office that Warren works at in Kiewit Plaza, close to downtown Omaha, has only 25 employees to oversee the entire company. A great lesson in hiring the right people without micro-managing them. As Warren says, "Hire well and manage little."

Q: Have you changed your annual shareholder letter format over the past 50 years?

WB: Our original annual shareholder letter was written so an accountant could understand it. Years ago, with the help of Carol Loomis, retired Editor-at-Large for Fortune Magazine, we simplified our format to make it more understandable to people like my family members.

The art of keeping it simple when Berkshire is actually so complex with so many moving parts. It takes a genius to make something so complex - simple.

Q: What are your thoughts on today's volatile markets?

WB: The last couple of years Wall Street has become a combination of a casino and gambling parlor. Brokers make a lot of money when people are gambling with investing. Contrary to a lot of investors, Berkshire invests slowly and deliberately, with a tremendous amount of research and always keeps a substantial amount of cash available (minimum \$30 billion) for that rainy day when it's time to buy stocks and/or companies

in a big way. Overall, the American system has worked very well and works a lot better today than yesterday. Warren is a realistic optimist with his perpetual belief in "The American Tailwind".

CM: People tend to buy stocks they know nothing about and take advice from people that know even less.

Q: What are your thoughts on international investing?

WB: We haven't bought a lot of international companies because it's more complicated with different currencies and regulations. Warren and Charlie's answer to international investing is to buy large global brands for international exposure. Berkshire underweights investing in international stocks. At Spectrum, we also tend to underweight international.

Q: What is Berkshire's stand on climate change?

WB: Both Berkshire Energy and BNSF Railroad have partially committed to reducing the carbon footprint in the coming years. Berkshire energy is aiming to achieve net-zero greenhouse gas emissions by 2050, while BNSF is aiming to cut emissions by 30% by 2030, from 2018 levels.

Q: What are your thoughts on compensation for directors of a company?

CM: We don't think of a director as being independent if their director fee is \$300,000 per year. Someone who is on the board of five different companies, has a full-time job making \$200,000 - \$300,000 per year from each company as a director, is not independent. Some companies don't want independent directors, they want one horse, one cow and one sheep.

Q: What is Berkshire's stand on Bitcoin?

WB: If people could buy 1% of all the farmland in the country for \$25 billion, or 1% of all the apartments in the country, I would take that deal. Why? Farmland and apartments are a productive asset that produce income. If we had a chance to buy 1% of all the Bitcoin in the country for \$25 billion, I wouldn't take that deal. Why? Because Bitcoin is a non-productive asset. It has no value other than someone else wanting to buy it. For assets to have value, they need to produce something.

CM: Bitcoin is stupid and evil because it undermines our nation's Federal Reserve system. We are a lot dumber than people in China because Xi (China's leader) has said no to Bitcoin.

People are behaving more tribal today, which can be dangerous to society. A few people that agree with Berkshire's philosophy on Bitcoin (BTC) are CEO Jamie Dimon from JPMorgan and CEO Larry Fink from Blackrock, representing some of the largest money managers in the country. According to time.com, the value of Bitcoin reached an all-time high of over \$68,000 in November 2021, after starting the year at just under \$30,000, only to fall back to \$37,820 as of May 2, 2022. Way too volatile for the average investor.

Berkshire Hathaway posted its best earnings in its history at \$7 billion in the first quarter 2022. Even with that tremendous record, Berkshire faces big challenges. According to the Wall Street Journal the nation's largest public pension fund, the California Public Employee's Retirement System (CALPERS) plans to back a shareholder proposal that would oust Warren Buffett, who is both Chief Executive and Chairman of Berkshire, from his Chairman role. The proposal's backers argue that companies are better off when different individuals fill two roles.

The proposals, up for a vote at Saturday's meeting, faced long odds for approval with Warren's voting stake at 32% in the company, along with a legion of fiercely loyal individual shareholders behind him, including Jonathan and I.

Without question, with Warren's enthusiastic answers he has no plans to step away soon; he loves what he does. Our group is already making plans to attend an 18th consecutive meeting next year in Omaha. It's called the Woodstock of Capitalism!

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