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Berkshire Hathaway - May 2021 Annual Shareholders Meeting

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For the 16th consecutive year, Jonathan and I "attended" the Berkshire Hathaway Annual Shareholder meeting on May 1, 2021. The first 14 meetings we attended were live in Omaha, with the last two meetings virtual due to COVID-19. Last year's live stream meeting featured Warren Buffett (now 90 years old) and Vice Chairman Greg Abel (59), but was missing Warren's long-time partner, Charlie Munger (97) who was unable to travel to Omaha for the meeting. To accommodate Charlie, this year's meeting was held in Los Angeles, where he lives.

The live stream format, which could be viewed on Yahoo Finance, was held on stage with Warren and Charlie sitting at the same table. The difference in this year's meeting was that Vice Chairman Greg Abel and Vice Chairman Ajit Jain (69) were both on stage at their own table, versus sitting in a chair in the audience answering shareholder questions.

Rather than have six panelists ask questions of Warren and Charlie, there were approximately 25 unrehearsed questions asked by Becky Quick from CNBC. Warren and Charlie hosted the annual Berkshire Hathaway (BH) meeting for three and a half hours. They are both amazing in their desire to hold a BH annual meeting for that length of time when they could both have retired long ago. During the meeting, Charlie let it slip that "Greg would keep the culture once Warren retires," which Warren later confirmed on the Monday after the meeting. In comparison, 70% of the S&P 500 companies have a mandatory retirement in place. According to the *Wall Street Journal (WSJ)*, the average S&P 500 chief executive retires at 60.1 years old. Half of the S&P 500 Boards have a retirement age of 75 or higher, however, companies are considering age diversity (5/4/21).

The live stream meeting was informative but not as much fun as making the annual pilgrimage to Omaha and actually attending a BH meeting at the Century Link Center with 40,000 other shareholders. Some of our favorite things to do when we're there are to buy Warren Buffett books from the Bookworm store, dine at some of Warren's favorite restaurants, and visit the BH exhibit center featuring 80 different BH companies, while enjoying a Dairy Queen Dilly Bar (a BH company). The meeting typically starts out with a 45-minute video set to great music featuring 80 of the BH businesses and their managers. This year, Warren skipped the video and went right into the Q&A session.

Warren always likes to start out the meeting with a history lesson in

investing. This year he opened with the top 20 largest companies in the world as ranked by stock market value. In 1790, the US had half of 1% of the world's population and now has five of the top six companies in the world. Warren said our country's system has worked very well. Of the top 20 companies today, 13 are from the US, three from China, and one each from Taiwan, Korea, Japan and Saudi Arabia. Warren asked, how many of the top 20 companies that were on the list in 1989, 32 years ago, are on the list today? His answer, "none". In 1989, 13 of the world's largest companies were from Japan, six from the US, including Exxon, GE, IBM, AT&T, Phillip Morris, and Merck.

Interesting to note that today Apple is worth \$2.05 trillion, over double the total value of the top 20 worldwide companies in 1989. BH owns 5.3% of Apple today. Warren said that consumers are so attached to the iPhone, that if they had to choose between their iPhone or their car, a lot of consumers would give up their car.

This lesson is a classic case of not putting all your eggs in one basket. Including diversified stock funds, like ones that invest in companies in the S&P 500 Index, can help you through the years, vs. owning too many individual stocks, sticking with them too long and watching yesterday's winners fall out of favor.

Warren's lesson in risk tolerance was in reviewing BH's first quarter 2021 profits and losses. Due to the pandemic, in the first quarter 2020, BH lost almost \$50 billion (but he didn't sell) compared to a gain in the first quarter this year of \$11.7 billion. BH is in the process of buying back shares, not selling shares. In his 50-year career, Warren has never sold BH stock, even with major market downturns.

After Warren's history lesson, he asked Becky Quick from CNBC for the first question. The following are answers to some of our favorite questions from BH shareholders:

Twenty Largest Companies by Market Cap at March 31, 2021			Twenty Largest Companies by Market Cap - 1989		
Country	Company	\$ Market Cap	Country	Company	\$ Market Cap
U.S.	Apple	2.05T	Japan	Industrial Bank of Japan	104B
Saudi Arabia	Saudi Aramco	1.92T	Japan	Sumitomo Bank	73B
U.S.	Microsoft	1.78T	Japan	Fuji Bank	69B
U.S.	Amazon	1.56T	Japan	Dai-Ichi Kangyo Bank	64B
U.S.	Alphabet	1.39T	U.S.	Exxon Corp	63B
U.S.	Facebook	838B	U.S.	General Electric USA	58B
China	Tencent	752B	Japan	Tokyo Electric Power	56B
U.S.	Tesla	641B	U.S.	IBM Corp	55B
China	Alibaba	614B	Japan	Toyota Motor Corp.	53B
U.S.	Berkshire Hathaway	587B	U.S.	American Tel & Tel	48B
Taiwan	Taiwan Semiconductor	534B	Japan	Nomura Securities	46B
U.S.	Visa	467B	Netherlands	Royal Dutch Petroleum	41B
U.S.	JP Morgan Chase	464B	U.S.	Philip Morris Cos	38B
U.S.	Johnson & Johnson	432B	Japan	Nippon Steel	36B
Korea	Samsung Electronics	430B	Japan	Tokai Bank	35B
China	Kweichow Moutai	385B	Japan	Mitsui Bank	34B
U.S.	Walmart	382B	Japan	Matsushita Elect Ind'l	33B
U.S.	Mastercard	353B	Japan	Kansai Electric Power	33B
U.S.	United Health	351B	Japan	Hitachi Ltd	32B
France	LVMH Moet	336B	U.S.	Merck & Co	30B

Source: Bloomberg – EQS Function

Source: Paul E. Steiger, Published by CNBC April 29, 2014



Q: Mr. Buffet, you're well known for saying to be fearful when others are greedy and be greedy when others are fearful, but by all appearances, Berkshire was fearful when others were most fearful in the early months of COVID, dumping airline stocks at or near the low, not taking advantage of the fear of gripping the market to buy shares of public companies at exceptional discounts and being hesitant to buy back significant amounts of Berkshire stock at very attractive prices. I'd appreciate hearing your thoughts surrounding this time and how Berkshire approached its decision-making, specifically after it was assured through the CARES Act that the government would provide a robust backstop to the financial markets.

WB: The airline industry that was selling for less than \$100 billion lost a significant amount of money and they lost earnings power. Right now, international travel has not come back, but I would say overall the economic recovery has gone far better than you could say with any assurance. I think the airline business has done better because we sold, and I wish them well, but I still wouldn't want to buy the airline business. *By BH not being involved, the airline industry had a better chance of recouping \$54 billion in federal support. Warren said the Federal government may not have been as generous with their support if they knew that BH owned 8% or 9% of the four largest airline stocks.*

Q: Explain to us how a new investor can get started in investing? *Warren warned new investors, that picking great companies is more complicated than just selecting an industry.*

WB: In the 1900s there were at least 2000 companies that entered the auto business because it clearly had this incredible future. In 2009, there were only three left, two of which went bankrupt. So there was a lot more to picking stocks than figuring out what's going to be a wonderful industry in the future. It tells you that capitalism has worked incredibly well, especially for capitalists. The world can change very fast in very dramatic ways, which is why it makes sense to invest at least a portion of your money in index funds.

CM: I disagree with investing in index funds. I prefer holding BH to the market, even after we are gone.

Q: Why did you trim your stake in Apple stock?

WB: It was probably a mistake. Charlie, in his way, let me know it was a mistake. *Warren has never been afraid to admit his mistakes – it's one of the reasons he is so likable, with thousands of loyal shareholders. BH did buy back \$6.6 billion of their own stock in the first quarter 2021 after a record \$24.7 billion (5% of BH shares) in buy backs of their own stock in 2020, which indirectly increased shareholders positions in Apple.*

Q: What are your thoughts on investing in SPACs? *SPAC stands for Special Purpose Acquisition Company, which is a publicly traded company that starts out holding cash. SPACs were all the craze throughout much of 2020 into 2021. Warren expressed his dislike for the SPAC business model, which requires most SPACs to find a business to buy in two years.*

WB: If you put a gun to my head and said you have to buy a business within two years, I'd buy one, but it wouldn't be much of one. We are not going to have much luck in acquisitions while this sort of period continues. *Warren and Charlie warned about the rampant speculation going on in the stock market, particularly with SPACs, and said it is a byproduct of the rush of new investors into the market. Warren warned that no one tells you when the mania is going to end.*

Q: Give us your views on low interest rates and the impact on the markets.

WB: Interest rates basically are to the value of assets what gravity is to matter, with the implication that when interest rates rise, the value of assets could fall.

CM: There is a good chance that this extreme conduct of low interest rates is more feasible than anybody thought, but if you keep doing unchecked federal spending, to keep the economy going, while holding interest rates down without any restraints, it will end in disaster.

Q: What are your thoughts on Bitcoin? *Warren dodged the question stating that he wanted to avoid making hundreds of thousands of viewers who own cryptocurrency unhappy. Charlie didn't hold back.*

CM: I hate the Bitcoin success. The whole development is disgusting and contrary to the interest of civilization.

Q: Would you write an insurance policy for Elon Musk's (*founder of Tesla and SpaceX*) proposed mission to Mars? *Vice Chairman and manager of Geico, Ajit Jain, said no.*

WB: It would depend on the premium and would probably have a different rate if Elon Musk was on board. *(Laughter)*

Q: Your thoughts on Robinhood as a trading platform/custodian and their impact on new investors?

WB: Robinhood has become a very significant part of the casino group that has joined the stock market in the last year or year and a half. Although there is nothing illegal or immoral about it, I don't think you build a society around people doing it.

CM: Robinhood relies on a controversial practice called "payment for order flow" as their profit engine, in lieu of commissions. That is really waving the red flag of the bull. I think it's just God-awful that something like that would draw investment from civilized men and decent citizens. It's deeply wrong. We don't want to make our money selling things that are bad for people, *(where new investors are gamifying trading).*

Q: What are some lessons that you have learned in the past year?

WB: My biggest lesson is to listen more to Charlie. He's been right on some things that I've been wrong on. *In past meetings Charlie has said, "I get paid for telling Warren Buffett, no".*

CM: Well, I don't know. If you're not a little confused by what's going on, you don't understand it. We're in uncharted territory.

WB: No matter how chaotic things have been, stranger things are going to happen in the future. *A good reminder of one of Warren's favorite expressions, "Keep a margin of safety".*

Significant this year is on April 28, 2021, Warren's net worth for the first time exceeded \$100 billion at \$103.3 billion, now ranking sixth in the world. Warren's ownership stake in BH is 16.2% as of March 3, 2021 (Reuters, 4/29/21).

Greg Abel, Warren Buffett's successor, has been the manager of Berkshire Energy and now heads up the non-insurance operations of BH. Greg is originally from Canada and graduated from the University of Alberta in 1984. He currently resides in Des Moines Iowa, where Berkshire Energy is very active.

According to the *Wall Street Journal*, investors have described Greg as a level-headed presence, likely to run BH in a similar manner to Warren (5/4/21).

Listening to Warren and Charlie answer unrehearsed questions about the market is like listening to two wise old timers in a coffee shop. At 90 and 97, every time we hear them together the experience becomes even more precious. Warren, being the perpetual optimist that he is, mentioned seeing 40,000 shareholders again in Omaha, the first Saturday in May 2022. As they say, "It's like getting an MBA in a day." Jon and I and some of our Spectrum associates are looking forward to next year in Omaha.

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