

Woodstock of Capitalism

Berkshire Hathaway - May 2023 Annual Shareholders Meeting

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For the 18th consecutive year, we once again enjoyed our pilgrimage to Omaha. This year's group, in addition to Jon and I, included team members from Spectrum: Manuel Rosado, Emily Zimmerman, Paul Minick, and Dan DeDecker. We also had the privilege of meeting up with Butch Pomeroy, the President of the International Bank of Amherst, and one of his long-term customers, Peter Blenker. Butch has been a loyal customer of Spectrum, formerly known as Christiansen Investments, for over 50 years!

The Berkshire meetings have been broadcasted live on the internet since 2016. One of the things you miss on the live stream is the chance to tour the exhibit hall, with displays from several Berkshire brands such as GEICO, Dairy Queen, and Brooks shoes. This year while roaming the exhibits we crossed paths with Greg Abel, who is slated to be the next CEO of Berkshire Hathaway after Warren Buffett. Greg was very friendly, witty and humble, much like Warren.

We started waiting in line Saturday morning at 6:45 am, to enter the CHI Convention Center & Arena at 8:00 am, for the Berkshire Hathaway meeting at 8:30 am. In the 18 years we have attended, it was the longest line we had ever witnessed; as Warren mentioned, "we are breaking records with over 40,000 people attending."

Another perk to attending in person, is witnessing the pre-meeting video. It is not part of the livestream and Berkshire does not allow it to be shared online. This year's video featured several clips from prior meetings asking Warren and Charlie about their plans to retire. The first clip was from 1991, when Warren was 60 and Charlie was 67. Year after year they have answered those same questions and they are still going!

If there are two things that stood out at the meeting, it is Warren Buffett's unwavering optimism for our country's economy, and that Warren, age 92, and Charlie, age 99, are still as sharp as ever. They both read 4-5 hours per day, which helps keep their minds sharp. Warren and Charlie answered almost 50 unrehearsed questions from Becky Quick from CNBC, alternating with the members of the audience.

The following are answers to a few such questions asked over a six-hour period with a break for lunch:

Question: "Mr. Buffet, when you and Charlie retire should I sell my stock in Berkshire Hathaway?"

WB: Shareholders at Berkshire Hathaway are generally not trading the stock but hold it for a lifetime similar to how you would own a farm or an apartment house. It will take 12-15 years in Berkshire to distribute my shares to a foundation so for a while our successors should have a long honeymoon period. The investments we own, GEICO, Berkshire Energy, BNSF and Apple, are built for the long term. Our business is so good you could put it on auto pilot for a while.

CM: If you are a shareholder and sell your stock after we are gone, you will do a lot worse, keep the faith.

Question: Why are you holding so much cash and what do you plan to do with it?

WB: We have 125 billion in short term treasury bills earning about 5% per



year which was 4 basis points a few years ago. The difference in income on our cash holding has grown from 4 million per year to 5 billion per year. In the meantime, they wait for the "fat pitch" regarding the next investment. We invest the "float" from our insurance companies including GEICO. Float is a liability, that hasn't cost us anything and can't disappear quickly. In the month of April 2023 BH added 7 billion to the float and with it we bought 400 million worth of stock in the month of April 2023.

Question: What do you do to keep your emotions in check?

WB: I can't really remember ever making an emotional decision. Charlie, have you ever made an emotional decision?

CM: NO!*Laughter from the audience*.

Part of the secret to keep from making dumb emotional mistakes is that they rely on each other as sounding boards. And Charlie's not afraid to tell Warren Buffett "NO."

WB: What gives us optimism is other people doing dumb things, which gives us opportunity. In the 58 years we've been running Berkshire, we have seen a great increase in the number of people doing dumb things because of 'easy money'.

Question: What are your thoughts on the rise of Artificial Intelligence (AI)?

WB: Artificial intelligence will no doubt disrupt many industries in the years to come, but we remain skeptical. AI can do all kinds of things, but I get a little bit worried because it wouldn't be able to tell how people think, which can become dangerous.

Warren compared AI to the development of the atom bomb in WWII. Once the genie is out of the bottle you can't put it back in.

CM: I think old fashioned intelligence works pretty well.

Question: How should you avoid major mistakes in business and life?

WB: You should write your own obituary and then try to figure out how to live up to it. I've never known anybody that was basically kind that died without friends. I've known plenty of people with money that died without friends.

CM: Success comes from steering clear of toxic people. The great lesson of life is to get them the hell out of your life, and do it fast!

Question: *shareholder from Ft. Worth, Texas* There is a problem in estate planning. Is it how we are teaching our children? Are we teaching properly? Do you care to comment?

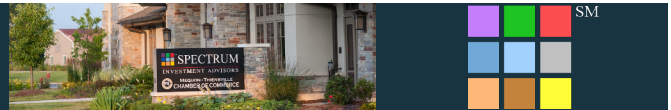
WB: The major mistake that parents make is the development of a will and/or an estate plan without their children reading it before they die. Before parents sign a will, they need to have every one of their children read it beforehand. If they don't like how the will reads, within 15 months they will all be hiring a lawyer to fight each other.

CM: If the estate involves Berkshire Hathaway, in 95% of the cases just tell the kids to hold the damn stock and not sell it.

Question: Tell us your plans on developing renewable energy?

WB: We have spent more money on renewable energy than any other utility in the country. By 2030 we want to reduce our carbon footprint by 50%. In the next ten years we have earmarked 70 billion toward (7 billion per year) renewable energy. In WWII the American people developed a plan to build a war machine. Today without that burning desire, it is very difficult to get 50 states to work together regarding renewable energy.

Question: Tell us about your long-term faith in our country?



WB: This country isn't perfect. It faces huge challenges including a government that appears to be tribalistic. Partnerships have moved to tribalism and tribalism has moved toward mobs. But, if I could be born at any time in our country's history, I would want to be born today. The USA is a better place to live than the day I was born on August 30, 1930.

Question: Apple is now over 35% of your investment portfolio. Is that dangerous?

WB: Apple isn't 35% of the entire portfolio which includes GEICO, BNSF, and Berkshire Hathaway Energy. Our RR business is good but not as good as Apple. If people had to give up their second car or their iPhone, they would likely give up their second car first. We made a mistake a few years ago by selling some of our Apple shares.

Question: What are your thoughts on the relationship between the US & China?

CM: We are being equally stupid, between the US and China. Anything that increases tension between the two countries is stupid, stupid, stupid. It would be better to respond with kindness and promote free trade.

WB: If they push it too far something could really go wrong. Leaders that promise too much can get you into a great deal of trouble. A lot of inflammatory speeches can be dangerous. We have to realize that we both can prosper.

Question: You bought Taiwan semiconductor TSMC and within a few months sold most of it. Why?

WB: TSMC has one of the best managers in the world, but I don't like their location (next to China). *TSMC is building a 40-million-dollar chip plant, near Phoenix, AZ.* Nobody in the chip business is in their league. We feel better about the five companies that we bought in Japan vs. TSMC.

Question: Give us your thoughts on what your Columbia college professor did for you?

WB: Ben Graham did all kinds of things for me but never expected anything in return. His best work was the book he wrote, "The Intelligent Investor". I read his book when I was 20 years old. The book ranks 350th of all books and has sold at 7.3 million copies.

CM: Ben Graham taught us focus investing and the power of the phrase "margin of safety". In Ben Graham's entire career, 50% of his net worth came from one stock. That stock was GEICO.

Question: Give us your outlook on today's banking industry?

WB: Situations in banking is something that we always have to put up with, where "fear is contagious". It used to be if you saw a line at a bank, you responded by getting in line - but the banking system has changed. There were 200 banks that failed after WWI.

According to PolitiFact, the number of bank failures this year is small. Not counting Silvergate, there have been three bank failures so far in 2023. Which is far smaller than the number of bank failures after the Great Recession in 2008 where 156 banks failed.

WB: Deposits are no longer sticky today. You can push a button and transfer money in seconds. The three banks were more concentrated on the technology industry and didn't do a good job matching up their CD's and Investment portfolios. Both the CEO's and directors should suffer along with the shareholders, but not the depositors. You should have penalties if their behaviors don't change. I have money in my local bank that exceeds the FDIC limit of \$250,000 but I am not worried about it in the least.

CM: When everyone wants to get rich quick, that environment is literally toxic.

Question: I am 13 years old, and this is my sixth Berkshire Hathaway meeting. When the US dollar is no longer the global reserve currency, is it the beginning of dedollarization?

WB: The US dollar is the world's reserve currency and I see no other

option. Jay Powell is doing a good job. Destroying the US dollar as the reserve currency and replacing it with tokens is "madness."

CM: At some point, printing money to buy votes will someday be destructive.

Question: Give us your thoughts on investing in a big way, in Occidental Petroleum and Chevron?

WB: We like Occidental Petroleum, but we do not plan on making an offer to buy a controlling interest of the company - we currently own 20%. Occidental has an extraordinary management, that has a strong position in the Permian Basin in Texas/New Mexico. Chevron also has a strong position in the Permian.

CM: There is no other oil basin in the US that compares with the Permian. Half of our nation's oil comes from traditional drilling and the other half comes from shale drilling. We need to come up with a better solution, shale is not a long-term source of oil because the production of a new well declines so fast. Shale horizontal drilling is 2 miles down and then 3 miles horizontally. We need to expand our renewables to preserve our hydrocarbons because our hydrocarbons can do some things that renewables can't do.

An attraction to major oil companies is that they have accumulated huge amounts of cash. Chevron currently had 17 billion dollars of cash at the end of the first quarter.

Question: Do you have any thoughts about getting into the auto industry and manufacturing electric cars?

WB: The auto industry is just too tough. Henry Ford invented an assembly line technology to make the Model T Ford but 20 years later he was losing money. The auto industry has a huge capital cost. I think I would rather own Apple and know where it's going in 10-15 years, versus not knowing where the auto industry will be in 10-15 years. We would rather leave manufacturers of electric cars to people like Elon Musk who are willing to take such risks.

Question: Does the current size of the Federal Reserve balance sheet concern you?

WB: The Federal Reserve is not the problem. I don't worry about the Fed or its balance sheet. The Fed's balance sheet went from 800 billion to 2.2 trillion. It is more of a fiscal policy issue with the message being, "don't tax me, don't tax you, tax what's behind the tree", than a monetary issue.

CM: I don't know where we are headed but if you keep spending money and borrowing it, it leads to trouble. Look at Latin America, in developing a solution, "if you take the pain out, you take the gain out".

Warren and Charlie started answering about 50 questions about 9:30am with an hour break for lunch. Then again from 1:00-4:00pm. If you looked at them close up on the screen, they both looked pretty healthy. So our hunch is, we will see them both again next year when Charlie turns 100 years old. They have so much wisdom we wish they both would live for another 10 years.

Warren drank a few Cherry Cokes while Charlie appeared to munch on the 1.8-pound box of SEE's peanut brittle candy all day long, which kept him going, along with a Coca-Cola Dasani water.

Warren ended the meeting after a total of over six hours and said, "We could go for another half hour, but we might say something we shouldn't. Today we have already broken a lot of records".

Our team is already planning to attend our 19th annual Berkshire Hathaway meeting in Omaha in May 2024! In addition, our new book, "The American Tailwind" (featuring Warren Buffett), will be published in Fall of 2023, which took four years for Jonathan & I along with Katy Pavon to write.

Important Disclosures: *This report is for informational purposes only and should not be construed as a recommendation or solicitation to buy or sell any security, policy or investment.*