2014 Berkshire Hathaway Annual Shareholder Meeting

The Berkshire Hathaway annual meeting is an opportunity for shareholders and analysts to pose questions to Warren Buffett and Charlie Munger in a five-hour session covering over 60 questions.

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MAY 3, 2014 MEETING

Warren Buffett and Charlie Munger are still going strong at 83 and 90 years young. They tackle difficult questions and communicate in a clear manner that leaves little doubt as to their insight and accumulated wisdom.

Attendance has grown to an estimated 38,000 from several hundred since I started attending these meetings 29 years ago. Buffett and Munger are great thinkers and entertaining teachers. They celebrate good business and investment practices, the potential for human achievement, high ethics and decency to one's fellow man. Studying Buffett and Munger, you get a course in business, investing and decision-making, covering material learned from eight decades of experience.

The meeting ingrains the culture of Berkshire with shareholders and employees. An entertaining movie is shown each year that celebrates Berkshire's businesses, managers and employees. A recurring part of the movie is Buffett's testimony to Congress during the Salomon Brothers scandal in the 1990s. Buffett, who stepped in as chairman of Salomon Brothers after management resigned, tells Congress that he has instructed employees to behave as though their actions will be reported by an informed and critical reporter on the front page of the newspaper for all their friends and family to read. Lose money for the company and Buffett will be understanding, but lose reputation and he will be ruthless.

These notes are highlights rather than a transcript. Related subjects are grouped together. My thoughts and comments are within brackets to distinguish them from what I heard at the meeting, though they may reflect what has been said at prior meetings.

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Since Buffett took control of Berkshire Hathaway in 1965, he has built it from a small, competitively challenged textile business to a stock with a market capitalization of over $300 billion. Berkshire ranks as the fifth largest company in the U.S. by market value after Apple, Exxon, Google and Microsoft, and ahead of Johnson & Johnson and General Electric. Notable businesses within Berkshire are GEICO Insurance, Burlington Northern Railroad and consumer-product companies such as Fruit of the Loom, Dairy Queen and See's Candies. Berkshire also holds multibillion dollar investments in

Wells Fargo, Coca-Cola, American Express and H.J. Heinz, among others. Readers are encouraged to study Buffett's annual letters to shareholders for their wealth of business and investment wisdom, which are available at www.berkshirehathaway.com.

COMPENSATION PRACTICES AND BOARD BEHAVIOR

The day's first question was why Berkshire abstained from voting against the executive compensation plan at Coca-Cola. Buffett explained that although he isn't a fan of the recent compensation plan at Coke, he expressed his displeasure through an abstention and a private communication with Coke CEO Muhtar Kent rather than voting no or going to war with the company.

A later questioner wanted to know why Buffett's son Howard, who now serves on the Coke board, had not pushed to alter Coke's compensation plan. Buffett, an experienced board member having served on 19 corporate boards including the Coca-Cola board at one time, explained that boards are partly business and partly social organizations. Only rarely can a board member vote against the flow of board opinion or the recommendation of a subcommittee charged with a particular responsibility.

Despite appearances to the contrary, many board members aren't really independent at all, as they receive $200,000 to $300,000 per year for serving. Most directors enjoy their current positions and would like to get more of them. [In contrast, the members of Berkshire's board receive almost no compensation for serving ($900 for each meeting in person, $300 for each telephonic meeting, and $1,000 per quarter for each member of the Audit Committee.) They may be friends of Buffett, but the Berkshire directors are financially independent.]

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Buffett has served on the compensation committee of a board only once. He explained that compensation committees look for cocker spaniels with their tails wagging rather than Dobermans. Objecting to everything that differs from one's own opinion would not be effective within the board structure (or society). Reflecting on the social nature of boards, Buffett asked how often you would invite someone to dinner who belched loudly at each occasion.

As for Howard Buffett's position on the Berkshire board and his eventual role as Chairman, Warren Buffett explained that Howard would not be there to run Berkshire as CEO, but to facilitate a change in CEO should that ever be needed. Munger agreed that Howard Buffett is an excellent choice in that role. Howard is knowledgeable about business, Berkshire and its unique culture, and his father's ways of thinking.

To a later question, Buffett commented that proxy statement disclosure of compensation for top executives at corporations had the opposite of its intended effect. No board wants to admit its officers are mediocre, and no CEO benchmarks himself against the lowest paid CEO, so compensation plans constantly escalate with the help of public disclosure and the comparisons that ensue. Without the public disclosure, corporate CEOs would be making a lot less money.

Berkshire gives the minimum disclosure of its executive comp and doesn't intend to change, as it wouldn't be good for shareholders. [Buffett and Munger make only $100,000 per year in compensation. Though the amounts are not disclosed, many other executives at Berkshire are highly compensated based on their results and incentive programs devised by Buffett.] Buffett promised to write about the appropriate compensation for Berkshire's future leadership in the next annual report.

H. J. HEINZ AND 3G CAPITAL; BOOK RECOMMENDATION

In 2012, Berkshire partnered with 3G Capital to acquire H. J. Heinz. Asked if Berkshire would adopt the cost-cutting practices of 3G or do future deals with 3G, Buffett offered that 3G does a magnificent job of running businesses in a very lean style and that he expected to see more opportunities to partner with them. Berkshire has a somewhat different style in running businesses and wouldn't try to combine its approach with that of 3G, but Berkshire doesn't love overstaffing either. Buffett recommended "Dream Big," a book that chronicles the rise of the Brazilian trio behind 3G Capital. Buffett cited the 3G team as being smart, determined, never satisfied, hard working, very good at removing unnecessary costs, and not over-promising or over-reaching. Buffett said that Heinz will file 10-Qs so its financial reports will soon show the improved cost structure under 3G.

BERKSHIRE'S BENCHMARK OF PERFORMANCE

Buffett uses the growth in Berkshire's per-share book value as a rough measure of its increase in intrinsic value. His goal is for this measure to exceed the return of the S&P 500 Index over time, but it failed to do so over the last five years, as the stock market return was very high from the bottom of the bear market. From the market peak in late 2007, Berkshire has done quite well against the market. Berkshire's business progress in any one year will tend to underperform a strong stock market, match a moderate stock market and outperform a weak market. Over longer periods, Buffett expects Berkshire to outperform the equity market.

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Munger thinks this is a ridiculous yardstick, but Buffett likes to climb high mountains. Book value growth for Berkshire is after a full tax rate on earnings where there are no taxes assumed on the S&P 500 Index return. Berkshire has increased profits dramatically. If failing to beat the market over the last five years is a bad thing, he'll take more of it.

INTRINSIC VALUE

Intrinsic value equates to private business value. It is the present value of all the money that comes out of a business in the future. It is an estimate. Legendary investor Ben Graham emphasized the quantitative factors in his estimates; and Phil Fisher, the qualitative.

Aesop explained intrinsic value well when he said a bird in the hand is worth two in the bush. If you're going to exchange birds in the hand for birds in the bush, you need to know how many are in the bush, when you are going to get them and what you could have done with your birds in the hand in the meantime. Graham would count the birds he could see in the bush and wanted to see at least two birds for each one he exchanged. Fisher would use qualitative factors to estimate how many birds were in the bush, those he could see and others that might be there too.

INTRINSIC VALUE OF BERKSHIRE, SHARE REPURCHASE AND CAPITAL ALLOCATION

Though Buffett benchmarks Berkshire's performance to the increase in book value, Berkshire's intrinsic value far exceeds its book value. In recent years as Berkshire has grown and the capital it generates annually has become harder to deploy due to its size, Berkshire has begun to buy back its own shares when they are undervalued. Berkshire stands ready to buy back stock at up to 120% of its book value, a level that indicates Buffett's belief that Berkshire's intrinsic value is substantially higher. Buying back stock is only shareholder friendly when it is done for less than its intrinsic value. Buying back stock at more than intrinsic value hurts shareholders.

At some point in the future, Berkshire will generate more cash than it can deploy to create value for shareholders. Berkshire's test for retaining capital is whether a dollar of capital retained creates more than a dollar of value for shareholders. Whatever Berkshire decides to do then will be in the shareholders' interest.

KEEPING TRUST WITH MANAGERS; OPERATING ON DESERVED TRUST

Asked how he keeps the trust of the managers of the businesses that Berkshire acquires, Buffett answered that Berkshire keeps the promises it makes. As long as a business makes money and doesn't have labor problems, even if it doesn't live up to original expectations, Berkshire will keep a business that it bought. People who sell a business to Berkshire care where the business goes and how it and its people are treated by the new owner. They choose to sell to Berkshire rather than to others for this reason. [Berkshire is in the business of buying for keeps rather than buying for the purposes of dressing something up to sell it again later.]

Asked about the weak points within Berkshire, Munger commented that Berkshire is quite disciplined in some ways but sloppy by ordinary standards in others. For example, they don't sweep the cash up out of their businesses everyday into a central account. In periods of high interest rates, they could earn a bit more by doing that. But sweeping the cash changes the tone of the relationship with the managers. There will be times when they miss something through the lack of close attention to details like this, but giving Berkshire's managers the freedom to run their businesses gets greatness from them too. Berkshire gets positives from the leeway it allows that are hard to measure relative to the occasional downside.

Berkshire operates on a system of deserved trust. By the standards of the rest of the world, Buffett and Munger overtrust, but a great good comes from that.

OPPORTUNITY COST IS THE COST OF CAPITAL

Berkshire measures cost of capital by its opportunity cost, that is, what it can earn with its next best idea [as opposed to any number derived through arcane financial calculations]. Berkshire generates huge amounts of capital to invest each year. The test of retaining capital to invest is whether it produces more in market value than the dollars retained. Berkshire's size is an anchor to its future performance, but it intends to retain capital as long as it can add at least a dollar to market value for every dollar that it retains.

BERKSHIRE STOCK VS. AN S&P INDEX FUND FOR BUFFETT'S WIFE

In discussing investments in his annual letter to shareholders, Buffett mentions that his will directs the cash delivered to the trustee for his wife's benefit be invested mostly in an S&P 500 Index fund. Asked why this choice rather than investment in Berkshire shares, Buffett explained that all his Berkshire shares will go to five different charities that the charities will retain until they need money for disbursements. This will take about 12 years, so Buffett is bullish on Berkshire for a long time to come. For his wife, Buffett believes that stocks as represented by the S&P 500 Index will do quite well over time. There is no way for the trustee to get a bad result in the S&P 500 Index, as he might by trying to invest otherwise.

SUCCESSION QUESTIONS; HAVING A PARTNER

Asked if there would be an eventual successor to Charlie Munger, Buffett joked that Munger is his canary in the coal mine and that he has been encouraged by how well Munger is handling middle age. More seriously, Buffett commented that Berkshire is far better off because the two have worked together over the years. Buffett expected that a partnership could develop with their successors in leading Berkshire, though it might not take the exact same form.

To a later question on their relationship, they acknowledged that they have disagreed on a lot of things but have never had an argument. Years ago, they might talk every day; now they talk about once every two weeks. On most things they think alike, so they don't waste a lot of time talking. Buffett is more inclined to action than Munger.

Asked about succession planning at Berkshire's individual businesses, Buffett explained that he has private letters from all of the CEOs of Berkshire's businesses telling him what to do and who the replacement should be if needed. Munger added that he doesn't worry in the least about succession planning at Berkshire.

CAPITAL ALLOCATION AND CASH

To a question about drawing cash out of Burlington Northern versus leaving cash at MidAmerican Energy Holdings, Buffett explained that both companies make big investments in their businesses and would continue to do so. The difference is that Burlington Northern generates more capital than it needs for reinvestment, while MidAmerican has acquisition opportunities as well as internal investment opportunities to soak up the capital it generates. Further, MidAmerican is only 90% owned, while Burlington Northern is 100% owned. The difference in ownership combined with the greater reinvestment possibilities makes it easier to leave cash at MidAmerican. Munger cited the ability to deploy large amounts of capital through MidAmerican at predictable rates of return as being a great advantage for Berkshire.

Berkshire Hathaway always keeps about $20 billion of cash on hand, giving it the ability to pay large insurance claims or invest opportunistically without "having to depend on the kindness of strangers." Buffett explained that cash or credit is to business like oxygen is to people. You normally don't notice it, but in the absence of it, it is the only thing you notice.

SEE'S CANDIES

Asked why See's has trouble growing, Buffett explained that the boxed-chocolate business isn't growing. Years ago, every city had its own boxed-chocolate stores—Pepsi grew out of the Loft's candy business in New York—but boxed chocolate has lost share to other snacks. Different areas have different tastes in chocolate. The East likes dark chocolate better, and the West likes milk chocolate. See's has done better than others, but it can't do much to increase the size of the market.

See's opened Buffett and Munger's eyes to the power of consumer brands with pricing power. Munger commented that See's biggest contribution was the removal of their ignorance about this, saying they were pretty stupid back then, just barely smart enough to buy it. He added that the good news about Berkshire is that they still have a lot of ignorance to remove!

BANK OF AMERICA

Bank of America's miscalculation of capital doesn't change Buffett's thoughts on its business or the job that management is doing there. Mistakes happen. Berkshire has a 20,000-page tax return. You do the best you can. Bank of America's error didn't change its net income.

Recently Bank of America asked to change the terms of the preferred stock that Berkshire owns to improve its standing in calculating capital ratios. Berkshire agreed to change the terms to noncumulative from cumulative in exchange for making the security noncallable for five years. Converting to noncumulative would normally not be a good trade except for the 6% rate amid very low interest rates elsewhere. The preferred can still be used as payment for the conversion of the $7 warrants that came with it.

ACQUISITIONS

Asked if Berkshire's large holdings in Wells Fargo, Coke or IBM might be sold to pay for a very large acquisition, Buffett responded that it was possible but unlikely. Selling those stakes would not be the first option they would consider if it needed to raise cash. Berkshire wants to buy whole businesses more than it does parts of businesses through buying stocks. With its cash on hand and cash it generates each year, Berkshire can buy quite large businesses without selling down its portfolio. Borrowing $30 or $40 billion wouldn't cost Berkshire much at today's interest rates, but it would be reluctant to do that [see oxygen and cash comparison above]. But if a good $50 billion acquisition came along, Buffett and Munger would figure out how to do it.

To a later question on acquisitions, Munger offered that the sum total of those done by American businesses have been lousy–they haven't created wealth. Most have been bad ideas and a few mediocre. Bad acquisitions destroy value for shareholders.

People who get to be CEOs aren't shrinking violets. They want to do something, and forces *push* them toward deals, which is why so many are bad. Acquisitions have been a path to success at Berkshire, but Berkshire does not do them the same way as others. Berkshire tries hard not to be eager to do deals–just to be ready to do good deals when they come along.

Most but not all of Berkshire's acquisitions have been in the U.S., as Berkshire has had better luck getting on the radar screen of business owners seeking to sell in the U.S. than elsewhere.

CLIMATE CHANGE

Responding to a question about the effect of climate change on Berkshire, Buffett noted that Berkshire can be affected in many ways, some positive and some negative. They'll carry less coal on the railroad at some point in the future, but MidAmerican Energy Holdings will also install a lot more wind power. It can affect insurance through casualty losses, but most of the effects are very gradual. Munger added that people who think they know what will happen from climate change are over-claiming their ability to know. There's clearly warming going on, but some people are overly attracted to the idea of catastrophic changes. Berkshire is well positioned regardless.

TED AND TODD

Ted Weschler and Todd Combs, the two investment managers whom Buffett selected a few years ago, are each managing investment portfolios of about $7 billion for Berkshire. These amounts will grow as time goes by, and that's good. [They bring new ideas and can look at smaller companies than Buffett focuses on.] They have been helpful in doing things for Berkshire beyond their investment duties as well.

FED POLICY

Buffett wouldn't do much differently than the Fed has done in managing the monetary system. Their policies worked well in stemming the financial crisis. Ben Bernanke was a hero in how he handled the crash and the aftermath. It is fascinating to read the Fed transcripts of meetings during the crisis and see that not everyone at the Fed realized what was going on and how serious things were.

Cash was king in the crisis, but only if you used it and you were dumb if you didn't. People tend to cling to cash at the wrong times. Low interest rates have had a huge effect on the economy and asset prices. This isn't a bubble, but it's unusual. No one has seen this movie before, and we don't know how it ends.

CONGLOMERATE MODEL AND BERKSHIRE

A questioner worried that the conglomerate model would not work as well for Berkshire in the future given the record of other conglomerates in the past. Buffett disagreed and argued that the model had worked well if you consider the companies in the Dow Jones Average together as a conglomerate. Capitalism is capital allocation, and Berkshire can move money around within the company without tax consequences, which argues against breaking Berkshire up into smaller units. Owning a group of good businesses isn't a terrible business plan. Some conglomerates in the past were stock-promotion vehicles where management liked to get the stock up so they could exchange over-valued stock for businesses. Munger added that Berkshire feels no compulsion to buy companies, and they can invest through their insurance portfolio if there are no companies around to buy [desirable whole businesses at reasonable prices].

OIL SANDS

Berkshire has exposure to the oil sands, but it is not overly exposed. Berkshire has a business that sells a lot of cranes there, MidAmerican owns power transmission lines in Alberta, Berkshire has an investment in Exxon that owns some oil sands, Burlington Northern transports about 600,000 barrels a day of oil, and Berkshire just bought a business that makes an additive that improves the speed of oil flowing through pipelines. The oil sands are huge and will be an important source of oil for a long time, but they won't change anything much at Berkshire.

MISTAKES AND CHANGE

Buffett took full blame for the $1 billion loss realized in the bonds of Energy Future Holdings, the company that bought Texas Utilities in a leveraged buyout a few years ago. Buffett's key assumption that natural gas prices would not collapse was wrong. The technology for finding and producing natural gas changed, which caused its price to drop.

All businesses are subject to change and must adapt. GEICO is an interesting example. It started in 1936 offering auto insurance to government employees by mail [government employees were a better driving risk than the general population of drivers]. Distribution moved to the phone, then to the Internet and now possibly to social media. Along the way, in the 1970s, GEICO broadened its target market beyond government employees, and it almost went broke due to bad underwriting in some lines it didn't understand.

Business managers have to think about change. Berkshire's businesses generally deal from strength and typically aren't subject to rapid change, though sometimes slow change can lull you to sleep. Berkshire makes mistakes occasionally [and some businesses go to zero], but there are no bet-the-company situations at Berkshire.

If past history was all there was to the game, the richest people would be librarians.

Munger added that scrambling out of your mistakes is enormously important. Berkshire could have stuck with the textile, trading-stamp or department-store businesses they owned that all went to zero. Instead, they took cash out and went on to better things. The $6 million that they salvaged from their department store adventure turned into $45 billion because they got out of a mistake and moved on to better things. Change is inevitable, so how well you adapt to it is very important.

Another question was whether Berkshire should have done better with the opportunities presented during the financial crisis. Buffett said that looking back, he spent a considerable amount of cash too early (in September and October of 2008) relative to the timing and prices at which the market bottomed (in March of 2009). Buying Harley Davidson bonds with a 15% yield was a good investment, but buying the stock would have been better. Looking back, you can always do better, but he doesn't know how to pick the bottom. The game is played forward, not back. [A favorite quote from Buffett is "If past history was all there was to the game, the richest people would be librarians."]

Munger added that you can't put much money into any stock on the bottom tick. Off the bottom, the worst companies had the greatest recovery because they had dropped the most. [At the turn, the biggest short-term gains are often made on the most marginal players, but what if the turn doesn't come?] At Berkshire's size, they are interested in buying whole businesses more than stocks. They are looking to buy big businesses, good businesses run by good managers at reasonable prices without issuing shares of stock. When they had less money to invest, maybe they could get some money in at the bottom tick. Today, they are forced by their past success to buy whole businesses.

Buffett continued that they have bought a fair amount of Wells Fargo over the last few years, but bigger gains in share price were made by banks of lesser quality. Buffett was 100% comfortable buying Wells but only 50% going somewhere else, so he went where he was most comfortable. The weaker institutions needed a better economy to recover, whereas Wells was going to recover regardless.

GEICO

There were several questions about GEICO: the threat from self-driving cars, a competitor's use of a system to capture driving habits (Snapshot from Progressive), and whether GEICO can catch State Farm to become the largest auto insurer.

Cars that drive themselves would be good for society but are a real threat to the auto insurance business. It could take a while to get there though, and Berkshire will keep GEICO regardless. Munger suggested that the questioner was young enough to figure it out, but that he is old enough to go away peacefully without knowing how long that will take.

Insurance is all about figuring the propensity for loss to be able to establish the right price for the insurance. Progressive thinks Snapshot gives it valuable input for doing this, but GEICO has a pretty good system for estimating and pricing risk too.

Buffett said he had calculated that at the current rate of growth, GEICO could catch State Farm by the time he turns 100. GEICO started in 1936 and had reached a 2% share prior to 1993. Since 1993 when Tony Nicely took over the leadership at GEICO, its share has grown to 10%. GEICO will continue to gain share as long as it takes care of its customers and prices risk well. Munger added that what GEICO does, improving the quality while constantly looking to lower its prices, goes almost against nature. He compared GEICO's approach to that of Costco's, and said that offering more for less is a powerful business model that is extremely hard to compete with.

CIRCLE OF COMPETENCE

Buffett attributes much of his investment success to knowing his circle of competence. Asked how to define your circle of competence, Buffett said it is about being realistic in assessing your talents and shortcomings. Buffett admitted that he has gone out of it sometimes and joked that Munger has periodically given him guidance on his limits. Buffett cited Rose Blumkin and her sale of the Nebraska Furniture Mart to Berkshire as an example of circle of competence. Buffett would have paid stock for the acquisition, but Mrs. B. didn't know stock. She said, "Pay me in cash. I know cash."

Munger added that competency is a relative game. Berkshire has benefited from a large supply of idiots to compete against. Buffett had earlier observed that he knew some CEOs with no idea where their circles begin and end.

DOING IT OVER AGAIN TODAY?

Asked what business he'd go into if he were 23 today, Buffett answered that he probably would do exactly what he did when he was 23. He'd go into the investment business and he'd study companies, talk to people and learn how industries work. If he got interested in the coal business, he'd study 10 coal companies and talk to their managers. He'd ask them if they had to put all their money in one coal company, not their own, who would they choose and why. He'd also reverse the question: Who would you avoid or short? You can learn a lot by reading and personal contact. Just keep learning and something will come along that will be very useful.

Munger cited the example of Larry Bird picking an agent. He asked all the agents who wanted to represent him why he should pick them. Then he asked, if he didn't pick them, who else he should pick. When the same name kept coming up as number 2, Larry went there and got a great contract. Buffett did much the same thing when he had to pick a new management at Salomon Brothers on very short notice.

FRUGALITY

Munger offered that Buffett is the more frugal of the two. Why? Because Buffett has lived in the same house since 1958. Buffett said he had everything in life that he wanted, noting that standard of living doesn't equate with cost of living. If he had six or eight houses, his life would be worse, not better. Munger continued that frugality has helped Berkshire. Berkshire attracts frugal, understated people. Buffett interjected that shareholders should forget frugality this weekend and shop at Borsheims Jewelry and Nebraska Furniture Mart. The more they spend, the more they save at these prices!

TAXES AND RELOCATION

There was a question about relocating Berkshire from the United States to another country to save on taxes. [This is topical because Pfizer might look to do this if it is successful in its bid for the British company Astra Zeneca.] Munger answered that it would be crazy for a company as prosperous as Berkshire to try to get its taxes to zero. Berkshire follows the rules regarding taxes, taking the credits and deductions allowed. They don't pay extra, but they don't begrudge what they pay, either.

COPYCATS AND COMPETITION FOR BERKSHIRE

Buffett noted that Berkshire has some competition for buying businesses but no big competitors. Private equity buys businesses, but isn't really going after the same things. Munger added that Berkshire's model has legs and can go a long time. The momentum and ethos in place will last. Berkshire's model is not widely copied because it takes a long time. The slowness deters many people–you're dead before you're finished.

INFLATION

High inflation would hurt Berkshire but would hurt others more. [Berkshire's collection of businesses would likely do better than most under inflation.] Inflation doesn't create wealth, but it can move it around. Under inflation, Berkshire's earnings and value would go up, but not in real purchasing power. Debtors might like inflation–if you have big mortgage and lots of inflation, the mortgage becomes worthless and you still own the house. Munger added that people who owned businesses like Berkshire's survived Weimar Germany, while savers were wiped out.

PROSECUTION OF BAD ACTORS

To a question noting the recurring settlements paid by banks for bad behaviors, Munger thought the behavior on Wall Street had improved due to the trauma of the financial crisis. However, it will always be difficult to get good behavior when surrounded by a miasma of easy money. Munger and Buffett both favored prosecuting individuals rather than the institutions as the way to change behaviors. It's way easier for a prosecutor to go after corporations. Corporations settle; they write a check and go on about their business. Put a few individuals behind bars and behaviors change! It's a tougher job for the prosecutors to go after individuals, but it would do more good.

S&P 500 INDEX VS. HEDGE FUNDS

Buffett has a wager with Protégé Partners, a hedge fund-of-funds manager that the return of the S&P 500 Index will exceed that of the hedge funds selected by Protégé over a 10-year period. [Buffett, who began his career as a hedge fund manager, sees two disadvantages with modern hedge funds: 1) the typical high fees of 2% of assets plus 20% of profits, and 2) hedge funds producing superior returns attract so much money that size becomes a drag on performance.]

The progress of the bet is reported at each annual meeting. After falling

CALENDAR YEAR	S&P 500 INDEX	PROTEGE HEDGE FUNDS
2008	-37%	-24%
2009	+26%	+16%
2010	+15%	+8%
2011	+2%	-2%
2012	+16%	+6%
2013	+32%	+12%
Cumulative	**43.8%**	**12.5%**

Source: Berkshire Hathaway

behind in the bear market during the first year of the wager in 2008, Buffett's S&P 500 Index side of the bet surged ahead through 2013 as shown in the table to the left.

2015 ANNUAL SHAREHOLDERS MEETING

The 2015 meeting will occur on Saturday, May 2, 2015, in Omaha, Nebraska. Omaha makes a nice weekend getaway, with a number of attractions in addition to the annual meeting events. Make your plans now if you would like to attend. Hotels and planes fill up early.

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