Q&A with Warren Buffet
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As noted by John S. Reuwer ‘10

Any advice for Obama going into 2010?

Obama has the toughest job in the world. It will be hard to rejuvenate the economy without “igniting inflation.” I wouldn’t want to be President. Inflation expectations can cause people to do weird things.

Possible economic impact of healthcare reform?

We’re spending $2.2 trillion on healthcare. It’s a push and pull between interested parties. Argument has devolved into means of payment instead of changing the system. Incentives are misguided. Consumers don’t pay for services; third party usually pays. Health care should be fundamental. We should give that peace of mind. We won’t end up with legislation that makes any meaningful change. The general public doesn’t lobby.

Oil Price? Peak Oil? Alternatives?

Oil is finite. It will eventually run out for practical purposes. America found oil early, and there isn’t much left here. We will see a plug-in electric car. BYD is very smart. Doesn’t know if change to alternatives will be evolutionary or revolutionary. But oil will be higher and solar/electric will be more abundant. (A side note: Buffett went from average oil out of the ground down the value chain and into a personal consumption calculation in his head in about ten seconds.)

What tools to value a business? What methodology?

All investment valuation is the same whether it be a company, a farm, a restaurant, etc. When Aesop said that a bird in the hand is worth two in the bush, he eliminated the need for finance professors. At iRates of one percent, you can wait awhile to grab birds. At iRates of 20 percent, you have to grab them fast. No need for spreadsheets. If you have to know within three decimal places, then probably a bad deal.

Most important lesson you learned from Charlie?

Graham was my first big lesson. He created the framework. Ch. 8 and 20 from Intelligent Investor are most important. Parenting is often the most important job of a person because someone young and growing is learning from you. Associate with great people. Have good heros. Your spouse is most important, but marrying up isn’t possible for the whole world. It’s a mathematical contradiction. What’s a spouse’s most important attribute? Low Expectations.

USA National Debt?

I don’t know the limit but doesn’t want to test it. We’re not close to it now though. I’ll be worried when others aren’t worried. Stealing from our children? Baloney. USA is bankrupt? Baloney. You can’t steal
the future; you can only promise it to different groups. We won’t pay off debt anyway, only roll it over. We didn’t use taxpayer money for bailouts. We used Chinese money.

**Why are you bullish on the USA?**

If we met each other for a talk in 1776, you would have gone back to a farm afterwards with the same brainpower as today and the same work ethic as today, but your productivity output would have been a joke compared to today. What changed? The system. The technology. USA unleashes potential like no other. Don’t bet against the USA. I’m optimistic about the future.

People in the future will laugh at people in 2009 who thought USA was tapped out. You live the same as me and much better than Rockefeller. Computer has done wonders for equality. The biggest change to my life in the last 25 years has been the computer. And it only costs me $95/year. All these geniuses with high IQs in the computer industry and they can only get $95/year out of me.

**Would you hire Ken Lewis (BoA)?**

I can’t kick a guy when he is down … but no. BoA got money at 60bps. They should have been able to make money at 60bps. To pay anything for Merrill was silly. Everyone knew Merrill would be basically free one day. It’s not smart to pay a premium when you didn’t have to. The Fairness Opinion from Chris Flowers was a joke. I want to write a Fairness Opinion about the Fairness Opinion. But the purchase may have been good socially. WaMu was different. I give credit to Sheila Bair, who moved nine percent of deposits with a dime of taxpayer money. Everyone got out of control in the housing boom. The biggest cause was the universal belief that home prices must always go up.

**What consequences of bailouts? Another Bubble?**

I’m not worried about moral hazard. When you lose 90 percent of your money, you don’t moral hazard. Even Lehman bonds are selling at 15c on the dollar. Owners got killed, but executives need more skin the game. I wouldn’t shoot them, but would do something close to it. We will continue to have too big to fail, but shareholders will be wiped out. But the best time to get rich is a crisis. You just need independent thinking, financial preparation, and mental preparation.

**You start investing young. What two industries are first for Circle of Competence?**

Look for simple businesses. If I gave you $10M to invest right now and you only had three weeks to spend it and you could only spend it in Omaha, you’d look for simple, understandable, strong businesses. You look at the Nebraska Furniture Mart (NFM). You wouldn’t look at the third best fast food chain. You might look at McDonald’s, because it is number one and will probably always been number one. They have share of mind. What about Oracle? Too hard. GM? Too hard. You can’t predict the future for these two companies. Too many variables.

Investment knowledge is cumulative, and things you learn will make you better in the future. Stick to things you understand. Mrs. B at NFM wouldn’t get paid in Berkshire stock. Why? She doesn’t know stocks, but she knows furniture down cold. How do you beat Bobby Fisher? Play him in anything except
chess. Even young people have a circle of competence even if they don’t have [their thoughts] perfectly organized.

**When most nervous during a deal?**

I never get nervous during deals. I love them. That’s my game. If you are nervous, you probably shouldn’t be doing it anyway. If you need consultants, don’t do the deal. Advisors are a joke.

**Stock split? Attracting non-value investors? AGM too big?**

I felt forced to split stock so the deal was fair to smaller investors. I wouldn’t like it if I were a small investor and could only get cash. So he made the choice not to do it to others. AGM has grown from 12 in 1981 to more than 30,000 last year. Qwest Center is already close to capacity. It sells out the entire city and most of Lincoln during the AGM. My dream is to have the AGM in Memorial Stadium for a Nebraska football-style AGM. I would have the managers of Berkshire’s companies to run through clouds of smoke while I shouted their names over the intercom. But this might not be a good idea when shareholders see all these managers limping through the smoke coughing.

**Newspaper industry in trouble? Thoughts?**

Newspapers used to have a moat. It was the only or best source of information. Eighty percent of the cost was paid by the advertisers so it was cheap for the consumer. It was a natural monopoly. But the internet changed everything. If Gutenberg had invented the internet first, newspapers would have never existed. Internet can put newspapers out of business, but the opposite isn’t true.

**CRE?**

CRE is a mess. Five-year bullet mortgages are due soon from the bubble era. Not as big as residential but still big. I once bought a farm from the FDIC in the 80s when farm market collapsed. Residential? There are too many homes. We built more houses than households were being created. We can increase home prices by destroying current homes or asking teenagers to cohabitate earlier. There’d be a lot of young men who would take that deal. But we are more likely to just build less houses, and that’s a good thing. Excess inventory is being eaten up.

**When CEOs call? Most surprising call?**

I sit and wait for the phone to ring. I can give most answers in less than a minute. Deals? I like to hear price first. No point hearing the rest if the price isn’t good. Ponzio (terrible name for a business man) pitched the custom frame business in ten minutes. I got the price, liked it and did the deal. Custom frame business can’t be replicated. Met Ponzio later for one hour and never saw him again. (Side note: Buffett has an ungodly good memory. He talked about a Gillette commercial he once heard on the radio in 1941 while listening to the Nebraska/Stanford football game.)

**How to improve independent thinking?**
Good question. Very tough. (Repeated the 10-percent lifetime earnings purchase deal from the Town Hall at Columbia.) Students could dramatically increase the value by improving oral and written communication skills. (Mentioned Dale Carnegie classes he took.)

**Stocks are volatile so precious metals better? RE?**

Volatility is great for an investor. If stocks only went up over time at a constant rate, you’d be buying a bond anyway. Investing is the most advantageous game you can play. Why? You can use Mr. Market to your advantage. Exception: if you borrow money. Borrowed money can ruin you. If market knows more than you, then you shouldn’t be in the game.

**Succession Issues?**

Berkshire knows who is taking over. This is extremely important to me. I measure my success after I am gone too. Age of successor is important. I want someone to be in place a long time. It’s not a problem because Berkshire has a lot of talent. Succession not a problem because, unlike a company like GE where everyone is gunning for Immelt’s job, managers at Berkshire already have the job they want.

**Wealth and Happiness? Correlation? Causation?**

Do what you love to do. Get great people around you. Would they hide you? Many very successful people can’t find anyone who would hide them. Some would even be sold out by their own children. If a lot of people would hide you, you will be happy. Munger once stated that his dad would help him bury a body, but he’d get hell for it the next day.

**I will be working for Burlington Northern Santa Fe Railway after graduation. Any advice?**

Work hard and work for free. Work where you love with someone you admire.

**Advice for getting into investing?**

I love the treasure hunt. Learn as much as you can. Just jump right into the pool.