Reflections From the Oracle of Omaha

Lessons on how to be a better investor, partner & manager from the sages of Berkshire Hathaway, Warren Buffett and Charlie Munger

Over the last 50 years, Berkshire Hathaway has had an average annual return of 21.6%, with Warren Buffet leading the charge for these past 5 decades.[1] He is considered one of (if not *the*) greatest investors in history by many and is fondly known as "the Oracle of Omaha." Readers of our past Thinking Man pieces will note that Berkshire Hathaway is a company we follow closely. Several of BigSur's corporate and investing philosophies are strongly influenced by Warren Buffet.

During the Annual Meeting, many of the questions were centered on the "secret formula" for Berkshire Hathaway's success. Buffet, and his long-term partner in investment decision-making, Charlie Munger, were quick to answer each of these questions in the same way: there is none. Instead, Buffet re-iterated the importance of Berkshire's culture and approach throughout the meeting, and how he believes this is what has enabled their long-term success. There were a few themes which continued to come up during the seven hour meeting, and we share three lessons we took away from the sages Buffet and Munger on how to be a successful investor, partner and manager.

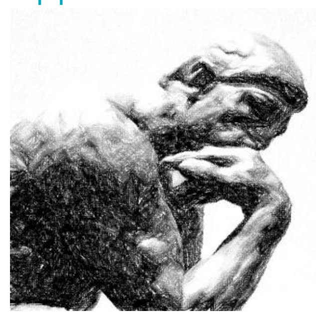
#1: Collaborate & Be a Student

In the Annual Meeting, Buffet was asked to reflect upon his partnership with Munger. He commented that in his younger years, he kept things close to his chest and rarely sought the advice of others when making a decision. "That was a mistake," he declared. He and Munger started investing together informally in the 1970s, and Charlie encouraged him seek the advice of experts in the industries they were investing in. "Be a student," Munger once said to Buffet casually. He took this to heart.

Buffet spoke extensively about the importance finding good teachers – not necessarily teachers in the professional sense – but good role models. "It's always good to be around people you can learn from," he said, and singled out Bill Gates, founder and former CEO of Microsoft, (and current Director for Berkshire Hathaway) as one of his teachers, who has "imparted priceless knowledge."

Collaboration is key at Berkshire: as they look to invest for the long term, it's essential to Buffet and Munger that the people they do business with are people they believe would make good partners in

The Thinking Man's Approach



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Last week, I travelled to the Heartland of America to attend Berkshire Hathaway's Annual Meeting in Omaha, Nebraska – along with over 40,000 shareholders. This year's meeting was special as it marked the 50th anniversary of Buffet heading Berkshire Hathaway. On Friday, each of the BRK's subsidiary companies and public stock holdings had a special exhibition or store. I toured inside a mobile home *(Clayton Homes)* and a private jet *(NetJets)*, directed a toy railroad *(BNSF)*, played trivia against Watson *(IBM, and I won't tell you who won)* , renewed my car insurance at a 15% discount *(GEICO)*, learned how to improve my running stance *(Brooks)* and indulged in too many sweets *(See's Candies* and *Dairy Queen)*. On Saturday, I attended the Annual Meeting, and my reflections are included in this month's Thinking Man.

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"achieving a shared long term goal and vision." He claimed that BRK has walked away from many attractive deals because they did not believe that the owners/managers of the companies would make good long term partners.

Buffet also commented that another key to collaboration was personality. "People like doing business with people they like and admire. It's simple, really. So, if you want to succeed in business, you should try to exhibit some qualities of people you like and admire." He went on to suggest everyone write down characteristics of people they like to do business with, and also characteristics of those they don't like. "Be more like the good and less like the bad, and make a real conscious effort to improve yourself," he encouraged the audience." He said he was still working on improving his patience at age 84.

#2: Owner-Partner & Long Term Approach

Long term partnership is a mantra at Berkshire Hathaway. They look at creating an "owner-partner" relationship for their subsidiary companies. They have a hands-off management style, and encourage managers to "run the company as if it were their own." You have to "give loyalty to gain loyalty," Buffet says. This approach keeps people motivated. It has also made Berkshire the ideal "home" many operating companies seek when they are looking to be acquired, Munger commented. Owners will decide to work with Berkshire, even if it means less money for them at the onset, because of this "owner-partner" approach.

Buffet also does not believe in harping on short term results, which he sees many CEOs and Wall Street investors doing. He remarked, "If we have good long term expectations, short term changes are meaningless for us, expect to the extent that they offer us an opportunity to increase our ownership at an attractive price." Investors in the equity markets can learn from this approach as well: "owning a stock is owning a business," he declared. "As long as you believe this business has a competitive advantage, stay with it for the long term, which in my view is a multi-decade horizon. In this long term horizon, a diversified equity portfolio bought over time will help attain significant gains in purchasing power over an investing lifetime."

#3: The Right Mindset

Buffet says that one of the keys to his investment success is his mindset. "Work on keeping a good mentality," he encouraged, "the same way you work to keep a good physical form." These are three keys to Buffet's mindset:

1. Enjoy the game
   Buffet said enthusiasm and passion for what you do are key. "Work never felt like work to me," which is what allowed him to be fully dedicated. His enthusiasm is also is what kept him a "student of the game" and growing as a professional. "Results are important," he said, "but there are days when you win and days when you lose. I've noticed that the managers who only enjoy winning are the ones who don't grow over time."

2. Keep cool: control your emotions
   Buffet credits his most profitable investments to "going big when things were tough." He made big bets in US financial institutions during the 2008 crisis and came out with sky-high

profits. If he identifies a quality company with strong fundamentals that is trading cheap, he will not hesitate to jump in, no matter what the macro situation around him. This does however require a cool head - he says, "you have to act in spite of your emotions, not because of them." Another Buffet mantra: "investment fluctuations benefit me, not hurt me."

3. Focus, focus, focus
   Buffet says he spends a lot of time, almost half of his day, "quietly thinking and reading." He needs the time to be solitary and focus on important decisions. "This is something I see less and less of," he remarked during the meeting. Munger added, "I hate multi-tasking. Everybody today is multi-tasking all the time."

A few tidbits on Berkshire Hathaway's positioning

- **BRK is investing in long-term growth for its companies**
  - Our last Thinking Man's note highlighted the "low animal spirits" plaguing most US corporate CEOs, and their focus on stock buybacks and M&A instead of long-term investments in their companies. Well, animal spirits are high at Berkshire Hathaway. In 2014, the subsidiaries of Berkshire Hathaway spent a record $15 billion on capital investments.
  - One of BRK's subsidiaries stood out in particular: Burlington Northern Santa Fe (BNSF) Railway, which is the second largest freight railroad network in North America. Buffet spoke about BNSF's plan to spend $6 billion on plant and equipment. This figure represents 26% of revenues and is 50% more than any other railroad has spent in a single year.

- **Jorge Paulo Lemann is one of Buffet's "teachers", and BRK likes the "3G Way of Doing Business"**
  - There were a few questions about the corporate philosophies of BRK and 3G: did Buffet really support the downsizing and "shark-like" mentality of 3G Capital?
  - First, Buffet commented that "rightsizing" a company's workforce is an approach he and Munger fully support. He asks why would anyone want a company to have more people than are required? "That's just makes no sense to me at all," he remarked.
  - He went on to name Jorge Paulo Lemann as one of the "teachers" he has learned from in recent years. He commented that he fully supports the 3G philosophy of running business as efficiently as possible, and in fact, the 3G way of doing business is the Berkshire way of doing business.
  - GEICO is a shining example, he said, which is run as just efficiently as any 3G company. He also used Berkshire Hathaway, the holding company, as another good example. BRK itself only has 25 employees. "I could have floors and floors of strategists, but we don't need that. I have just as many employees as I need," said Buffet.

- Interesting trivia: How many Bloomberg Terminals does Berkshire Hathaway have? 2. And, Buffet boasted, "that's only because we're not paying for 1 of them."

- Berkshire Hathaway likes Germany
  - Last week BRK closed on a deal they announced in February, to buy a mid-sized German motorcycle equipment retailer.
  - Charlie Munger commented that he likes the culture of companies he sees in Germany. He sees these companies being run with a strong work ethic, striving for perfection, and an intense focus. "And culture is everything to us," he remarked.
  - Buffet chimed in, "in the next 5 years, we can see ourselves buying another larger German company."

Concluding Remarks

Towards the end of the meeting, Buffet and Munger were each asked what they want to be remembered for. Munger spoke about being a "rational thinker," in a world where that is becoming more and more rare, and his hope that he leaves an example others can follow, if they are so inclined. Buffet, however, said, really, the only thing he wants when he is gone, is for Berkshire to be successful. "The most important thing [to me], is that Berkshire does well long after I am gone." He then commented on how upset (and even offended) he gets when the press asks him if he could consider breaking up Berkshire Hathaway and selling it in little pieces. "Have I ever done or said anything to indicate this is my plan?" he asked. "All I ever say or do is that I am here building something for the long term. I want Berkshire to be here for generations." Several times during the meeting, Buffett and Munger mentioned that there are a few managers at BRK who would will perform better at managing BRK than they have. Ajit Jain, head of several BRK owned re-insurance businesses, was singled out a few times for being a star manager.

Warren Buffet is one of BigSur's "teachers," and we have followed Berkshire Hathaway's investment positioning and strategy as well as corporate philosophies since our start. We hope that you recognize some parallels in how we approach investing and our relationships to some of the lessons and comments in this note. It was a fantastic opportunity to spend a weekend in the Oracle of Omaha's world, and if you would like information on how you can participate in next year's meeting, please reach out to your advisor.

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