

In The Company of Genius

By Joel Kelley

Whenever I tell people I'm going to Omaha, curiosity usually gets the best of them. "What's going on in Omaha?", or "Business or pleasure?" are a couple of reactions I get. When I tell them that I'm going to attend the annual shareholder's meeting for Berkshire Hathaway, I get yet another reaction like, "Oh, okay...." Or "What's that?". I love it when that happens. It gives me an open invitation to explain why I make this yearly pilgrimage. I begin by explaining that Berkshire is the company run by investor Warren Buffett. Most people have at least heard of Buffett, even if they don't know much about him.

I go on to explain that the Berkshire meeting is unlike any other annual meeting in Corporate America. It's known as "Woodstock for Capitalists" and is as festive as you can get and still have a conversation about earnings and revenues. The essence of the meeting is the six hour question and answer session lead by Buffett and his partner Charlie Munger. Virtually no question is off limits and the answers come from two of the brightest minds in business. That is why I go, year after year.

To further make my point, I ask my friends, "If you had been a physicist in the 1950's and every year, Albert Einstein agreed to sit down and answer questions from you and your colleagues, wouldn't you go?". Most nod their heads approvingly. Buffett, in particular, is considered a genius. As he says, he's wired in a certain way that makes him successful within our capitalistic system. He notes that had he been born in Bangladesh, he probably would not have prospered. His close friend, Bill Gates of Microsoft, has told him that if he had lived in prehistoric times, Buffett would have ended up as a meal for some wild animals. His genius wouldn't have been as valuable as the ability to run fast.

Each year after my Omaha visit, I come away feeling more grounded in the principles which make living and investing more meaningful: discipline, ethics, patience and temperament. This year was no exception. The six hour meeting went briskly while touching on a wide range of subjects. Some of the highlights from my notes are as follows:

- **Social Security:** both Buffett and Munger agree that Social Security funding problems can be solved easily and that the \$400+ billion budget deficit is a larger, more pressing problem. Buffett suggested that we could take three steps to fix Social Security-
 - ✓ Means Testing, which would pay benefits to those who need it and not to those who are above certain income levels;
 - ✓ Increase the retirement age, which is currently at 67 for full benefits for the youngest baby boomers, possibly increasing it to 68 or 69;
 - ✓ Increase the amount of income on which Social Security taxes are levied, which currently stands at 90,000/year. Buffett suggested eliminating the limit.

- **Corporate Pensions/Healthcare Liabilities:** Buffett and Munger sounded warnings about future pension and healthcare liabilities. Just this week, United Airlines sought and received relief from pension obligations. Both men feel that there are many other similar situations yet to come to light. As Munger said, “If you jump out of the 42nd floor of a building, you’re still doing okay when you pass the 20th floor. That doesn’t mean you don’t have a serious problem.”
- **Corporate Governance:** As customary, they both were critical of corporate boards of directors, especially compensation committees. Buffett noted that they don’t seem inclined to want Rotweilers or Great Danes onboard opting instead for Chihuahuas. He then said that he hoped he hadn’t insulted any of his friends on compensation committees. Munger chimed in without missing a beat, “You’ve insulted the dogs.”
- **Future Investment Returns:** Buffet has repeatedly said that he is optimistic on the U.S. economy despite all its problems and believes that our markets provide a good place to invest. He stated that he believes stocks will outperform long-term bonds over the next twenty years and expects stock returns of 6-7% per year. He has recently reinforced his advice for most investors to own a well diversified portfolio of index mutual funds. He also stated that he felt current prices for stocks were neither overvalued nor bargains. In the past, he has mentioned that most of the excesses of the stock market bubble have been worked off.
- **Real Estate Bubble:** The issue of a real estate bubble was bound to come up. In response to a question, Buffett said he had recently sold his home in Laguna Beach, CA, for \$3.5 million one day after listing it. He said that only meant that he probably sold it too cheap and that the per acre price for the lot it was sitting on came to about \$60 million. Munger suggested that there are pockets of a real estate bubble nationally and the consequences are yet to be felt.
- **Dividends:** Traditionally, Berkshire has not paid a dividend. In the past it has been a better use of the money to have Buffett re-invest the earnings rather than pay a dividend to shareholders. As it gets more difficult for Buffett to realize the objective of creating more than a dollar of market value for every dollar retained, he said he will consider a dividend in future years. At this time, the tipping point has not been reached.

There were dozens of other topics discussed, ranging from public education to gold prices. The six hours zoomed by but packed quite a punch. I commented to a fellow shareholder that It was akin to taking a graduate business school course in a single weekend. In the company of genius, you can learn a lot in a short amount of time.

Joel Kelley is a fee-only financial planner practicing in Asheville, North Carolina. He is the manager of Woodstone Financial, LLC. For more information, visit www.woodstonefinancial.com.