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Don't stop till you get enough

Warren Buffett shared many anecdotes at this year's Berkshire Hathaway annual meeting. In short:

BY FRANÇOIS ROCHON, THE GAZETTE MAY 10, 2011

A clerk holds a "magic answer ball" featuring images of Berkshire Hathaway chairman Warren Buffett (left) and vice-chairman Charlie Munger, at the company's 2011 annual meeting weekend in Omaha, Neb., which is nicknamed the Woodstock of Capitalism.

Photograph by: RICK WILKING REUTERS, The Gazette

Each year, I head out to Omaha, Neb., for the Berkshire Hathaway annual meeting. Berkshire is the holding company managed by Warren Buffett, commonly known as the Oracle of Omaha. The meeting attracts about 35,000 fans each year, making it the most well-attended annual meeting of any corporation. The annual gathering of value investors, which this year took place April 30, has been called the Woodstock of Capitalism.

After an hour-long video, the meeting started at 9:30 a.m. and lasted until 3:30 p.m. (with a pause for lunch). For five hours, Buffett and Berkshire vice-chairman Charlie Munger answered dozens of questions from shareholders on a multitude of topics.

Obviously, the state of the U.S. economy was a big worry for shareholders. And on the subject, Warren Buffett's opinion is different from many of his peers. To a question on the troubling future of the U.S., Buffett answered: "I was born in 1930. If someone would have told me before I came in this world that the stock market had just crashed, the unemployment rate was 25 per cent and that 4,000 banks would close, I would have felt like in a Woody Allen movie where we hear: 'Go back! Go back!' But since my birth, the Dow Jones has increased from 100 to 12,000 and the standard of living in the U.S. has increased sixfold!" The U.S. system works! It has unleashed the human potential of wealth creation like none other in history.

Afterward, Buffett told a personal story about his marriage with Susan Thompson in 1952. A few days before the wedding, his future father-in-law, William Thompson, wanted to say a few words to young Warren.

Thompson was an eminent Omaha figure in the 1950s: He was a minister, a psychologist and dean of the University of Nebraska-Omaha. He said to his soon to be son-in-law: "Warren, I want to tell you: don't worry about it, but you are going to fail. You will be poor and so will my daughter. But I don't want you to feel responsible. It's not going to be your fault. This country is going to hell, with the democrats slowly bringing our country to the roads of communism."

Buffett added this note: "There have been negatives and problems all my life. But that has not stopped me and it should not stop you today."

The other question that seemed the most important to me was about the fad of commodities. A shareholder wanted to know - in an environment of a declining U.S. dollar and inflation - why he shouldn't buy commodities instead of stocks (including Berkshire Hathaway).

Buffett had this logical answer: "There are three main asset classes. First is anything currency dominated like bonds or treasuries. Almost all currencies have lost in value over time. It is built into any economic system that the economy will be easier to work with when the currency is depreciating as opposed to appreciating. As a class, currencyrelated investing in the U.K. or U.S. or anywhere else - unless you are getting paid really well - does not make sense.

"The second category is commodities like cotton, oil, gold or copper. These assets don't produce anything. All you are doing when you buy gold is hoping that someone else will pay you, in the future, more to own something that doesn't do anything. Cotton has done very well lately, but over many years, its return has been terrible. But of course, if your neighbour owns gold and he is making money and you are not, it can affect your behaviour. People like to get in on things that are rising in price. But, over time, that is not a good way to get rich.

"Finally, there is the third category: wealth-producing assets. You buy a farm because you expect a certain amount of cotton or soybeans. You decide how much you will pay based on how much the asset will deliver in goods over time. These are the assets that appeal to Charlie and me. We don't care if we get a quote on the price of the farm each day. We bought Iscar and Lubrizol and we don't go around getting a quote on them each day: we look at the results of the underlying businesses. This is the same for securities. We look at the productive assets at Berkshire that generate capital that can be used to buy more productive assets. I would bet on good producing businesses to outperform something that doesn't do anything over a period of time!"

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