**Useful Lessons Drawn From the Berkshire Hathaway Annual Meetings – May 2005**

Every year I look forward to attending the Berkshire Hathaway Annual Meeting in Omaha, Nebraska. I arrive in Omaha on the Friday afternoon before the meeting and maintain a busy schedule of activities through the day after the meeting.

Why do I attend this meeting every year? It is the only forum where I can spend time with Warren Buffett and hear his views on a wide variety of topics that reinforce my own beliefs. I also attend to renew friendships I have made during the six or so years I have been visiting Omaha for the meeting.

At the end of the meeting this year while driving back to Indiana I decided that it might be informative if I took a moment and reflected about what I have learned at the various annual meetings over the years. I present the key concepts below.

1. **Patience**. One point that continually is reinforced at the annual meeting is that Mr. Buffett and Mr. Munger have an unbelievable reservoir of patience. They simply have no need to be filling their time simply to be doing something. They are fine sitting on their fannies until an intelligent opportunity presents itself to them. For instance at one meeting, Mr. Buffett stated he had read Anheuser-Busch's Annual Reports for 25 years before investing.

   Mr. Buffett has stated many times that one of the reasons that investing is such an interesting field is that an investor only has to swing at the perfect pitch and can let those that aren't in one's circle of competence pass right by. It simply doesn't matter how the umpire calls the pitch. Having such an incredible amount of patience is certainly one of the biggest reasons both have been so successful.

   As Mr. Buffett said at the meeting this year, successful investors are always searching for opportunities, they don't act every day but they do learn every day.

2. **Intelligence and Independent Thinking**. I am always intrigued by their thoughts on what it takes to be successful in life. I was taught while I was growing up that only highly intelligent people became successful, and they usually focused on a narrow area of specialization (i.e. they studied engineering, psychology, etc). I have learned from Mr. Buffett and Mr. Munger that it is far more important to use the brainpower you have effectively and efficiently. For instance Mr. Munger talked about his mental model approach to decision making. This approach is vastly different from what is taught at academic institutions. I advise everyone to use the core concepts from many different disciplines and apply them to make better, more informed, decisions.

   At the annual meeting this year, Mr. Buffett explained, "successful investing requires a quality of temperament, not a high IQ. You need an IQ of 125 tops … and you must be able to think for yourself." Mr. Buffett and Mr. Munger have stated many times that being moderately intelligent and possessing the right temperament (patience, ability to think independently, etc…) will make you a far more successful investor that just being highly intelligent. In fact he has said that being highly intelligent and possessing lots of drive and not much integrity is a dangerous combination.

   They have also spoke frequently at the meetings about the value of independent thinking. This year Mr. Buffett spoke about the herd mentality that Wall Street falls into. He spoke about how often hedge funds think they are operating independently but often make similar investment decisions that can have a cascading effect if something goes wrong (i.e. the Long Term Capital Management crisis when credit spreads failed to act in an expected manner).

3. **Focus**. At the annual meetings Mr. Buffett has often discussed the importance of focus, both in investing and in his business managers. He advises that he looks to purchase high quality companies run by managers with a passion for their business. Mr. Buffett said at the latest meeting that being purchased by Berkshire usually provides the business owner with the opportunity to shift the form of their wealth into a more liquid form while still being able to run the business just as they had always done in the past.

   This is a competitive advantage for Berkshire since these types of business owners rarely are willing to sell their masterpiece to someone in the hedge fund crowd. Why? Hedge funds (or leveraged buyout firms) typically plan to resell their investments within 3-5 years, so they will dress up a company in a sharp looking suit and sell it at the most opportune moment. The types of owners that Berkshire looks for find this type of short-term behavior revolting and not the type of legacy they want to leave behind. I don't believe such a fine collection of businesses as Jordan's Furniture, Ben Bridge, Nebraska Furniture Mart, Borsheims, Helzberg Diamonds, and RC Wiley, to name a few, would have sold to anyone else.

   Another noteworthy concept in the management focus category that Mr. Buffett and Mr. Munger have discussed many times is how individuals can significantly increase their odds of being successful if they work in a field that they have an intense interest and passion in. You only live once, why devote it working at a job you don't enjoy? How successful can you be at a job that you abhor?

   In terms of investing focus, Mr. Buffett has always advocated investing only in businesses that are understandable to you and that happen to be selling for less then their intrinsic value.

4. **Reduced Expectations**. At the last several Berkshire Hathaway Annual Meeting, Mr. Buffett and Mr. Munger made it increasingly clear that they don't expect the market to perform nearly as well in the future as it has in the past. In fact they think that a significant shock to the system is certain to happen at some point. They have built Berkshire Hathaway in such a manner that a shock to the system should reward Berkshire in that Berkshire will be able to write checks and thus possibly find some great investment opportunities while others are unable to do so.

   I feel it is important to remember that major reason their investment horizon is so limited is due to their huge capital base. This large capital base restricts them to only investing in a limited number of large companies if they want to make an investment that would have a significantly meaningful contribution to their bottom line.

5. **Corporate Governance**. Mr. Buffett and Mr. Munger have both commented on this subject many times. In reference to their own board, they are proud that all the board members own a significant amount of Berkshire Hathaway stock (purchased on the open market and not given to them via stock options) and serve on the Board despite Berkshire not providing them any directors' liability insurance.

They both took issue several times with the issue of board member independence. They think, and I agree, that board members who currently fall into the "independent" category, but their board compensation constitutes a large amount of their current earnings aren't truly independent. Why? For instance, if a merger is being considered that would result in their losing their board seat (and thus their salary) would that circumstance affect their decision concerning the purposed merger?

Mr. Munger also made an excellent point concerning the Sarbanes-Oxley regulation at the Wesco Annual Meeting. He stated that even though company executives had to swear that their numbers were accurate, the executives still had to trust someone else at the organization to count the "barrels of oil." As Mr. Munger says you have to run an organization with a certain amount of "deserved trust". That is you must be able to trust that your subordinates are being diligent and honest in the performance of their duties after they have proven themselves.

During the many meetings I have attended, I always find it refreshing that year after year Mr. Buffett and Mr. Munger expound on the same simple truths and investment tenets. For instance, I recently read a 1974 *Forbes* article in which Mr. Buffett was even then using his famous baseball analogy where an investor only has to swing at perfect pitches as advice to reinforce again at this year's meeting. Classic investment wisdom never seems to fade with time.