BERKSHIRE HATHAWAY 2012 ANNUAL MEETING NOTES

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We attended the Berkshire Hathaway annual meeting held on May 5, 2012 in Omaha along with about 35,000 other folks from around the globe who gathered once again for the Woodstock for Capitalists. Warren Buffett, Chairman of Berkshire Hathaway, and Charlie Munger, Vice-Chairman, answered questions from shareholders, analysts and the media. Here are my notes from the meeting.

FIRST QUARTER RESULTS

Warren Buffett began the meeting with a brief recap of Berkshire Hathaway's first quarter results. In general, all of Berkshire's companies, with the exception of the residential construction companies, have shown good earnings growth. Each of Berkshire's five largest non-insurance companies-- Burlington Northern Santa FE (BNSF), Iscar, Lubrizol, Marmon Group and MidAmerican Energy—delivered record operating earnings in 2011 of more than $9 billion in aggregate. Unless the economy weakens in 2012, Buffett expects each of the "fabulous five" to once again set a record, with aggregate earnings comfortably topping $10 billion. In the first quarter 10-Q insurance section, Berkshire disclosed how an accounting change for GEICO on deferred policy acquisition costs resulted in a decline in earnings of $250 million although there was no impact on cash flow. GEICO had a terrific first quarter as float grew and the underlying business was better than presented. Buffett feels good about the first quarter and the year.

SUCCESSION AND CHIEF RISK OFFICER

Buffett was asked if his successor will have the knowledge and temperament to take on the role of chief risk officer at Berkshire. Buffett agreed that the next Berkshire CEO should also be the chief risk officer of the company, as that duty should not be delegated. He noted that he has seen the duty delegated to risk committees at other firms, which resulted in real trouble. Buffett is the Chief Risk Officer at Berkshire and his successor will have the same responsibility and ability, which he ranks as highly as capital allocation duties. The basic risk at most companies is excessive leverage. In terms of insurance risk, one needs to be sure the insurance leaders correctly assess the risk and how it accumulates.

Charlie added the risk duties have been delegated in America and business schools have taught a silly way of trying to model risk with Gaussian curves and Value-at-Risk (VAR) models, which are some of the "dumbest ideas ever recorded."

Buffett agreed, noting that making calculations to eight decimal points provides a false sense of precision to gauging risk and that the Gaussian curve is not appropriate to measuring risk in securities markets. He joked, "We won't have an arts major in charge of Berkshire."

In response to whether Buffett's successor will have the ability to do special deals like Buffett did with the GE, Bank of America and Goldman Sachs preferred stocks and warrants which added to Berkshire's returns, Buffett noted that Berkshire will still be able to act with speed and will have occasions to do large transactions even after he is no longer managing the company. In striking the Bank of America warrants deal, Buffett had never previously talked with Brian Moynihan, CEO of Bank of America. However, when he did call Brian to propose the deal, Brian knew Berkshire had the money and was good for its commitment. Subsequent to Buffett's departure, Berkshire will still have the money, and his successor will have the ability to do other things, even if he doesn't do negotiated deals which Buffett may have done. Buffett quickly pointed out the negotiated deals, such as the GE, Goldman Sachs and Bank of America deals, have not been key to Berkshire's returns. They are not as important as his purchase of Coca-Cola over many months. The value that has accumulated in Berkshire over special transactions is peanuts compared to the purchases of entire companies like GEICO, Burlington Northern Santa Fe and Iscar. Sizable deals will still be available to Berkshire given the billions in cash available.

Charlie added that the Berkshire Board of Directors will also provide risk controls with Walter Scott being a great risk control analyst. He also noted that Berkshire director, Sandy Gottesman, once fired an associate who exclaimed, "How can you fire me?" Gottesman responded, "Because I am a rich old man, and you make me nervous."

REINSURANCE RESERVES

When asked about the reserving practices for a Swiss Re reinsurance contract, Buffett noted that it was a large contract which applied to 2004 business reinsuring American life. With American mortality figures coming in above expectations, Berkshire set up a reserve for a worst-case situation and took a charge as the ability to reprice the business could be subject to controversy. In all of Berkshire's insurance businesses, the overriding principle is to reserve conservatively which is the mindset of all the insurance managers. Reserving practices are different among Berkshire's insurance businesses as GEICO's auto insurance has a short-tail versus General Re's long-tail business. At the time Berkshire acquired General Re, they were underreserved on their book of business, but now with Tad Montross in charge, General Re's reserves are generally developing favorably.

Charlie noted that there will always be some insurance contract which works out worse than expected, snorting, "Why would anyone buy insurance if that was not the case?"

PROVIDING ADVICE TO CHINA

When Charlie was asked about what advice he might provide Chinese companies, Charlie grunted that he is not spending much time giving advice to China. He noted that China has been doing very well from a tough start, and we should be seeking advice from China rather than giving it. Overall, Berkshire has had little influence in giving advice to any business as it would be like pushing on a noodle.

Buffett added that Berkshire's four largest investments are worth $50 billion today and some of them Berkshire has held for 25 years. He said the number of times he has talked to the CEO's of these companies probably doesn't average more than twice a year. Berkshire is not in the business of giving advice. If Berkshire thought the success of a business depended on Berkshire's advice, they would move on to something else.

When asked if there will be great companies like Coca-Cola in China, Charlie said China already has great companies even though he can't pronounce their names. Buffett agreed, adding that China has huge companies which may eclipse U.S. companies.

BERKSHIRE'S VALUATION AND BUYBACK PROGRAM

A shareholder noted that Berkshire is willing to buy back Berkshire's stock at 1.1 time book value or less, and he now feels like a chump for paying two times book value for his shares. Buffett noted they have never encouraged people to buy Berkshire stock over its intrinsic value. In an ideal world, Berkshire's stock would sell once a year, and he would like to see it trade at an intrinsic value conservatively calculated by Charlie and him. If they think the stock is overvalued, they would like to announce before the market opens that the stock is overvalued so that folks don't overpay for the stock. He noted that when Berkshire issued their Class B shares in 1996, the prospectus included an unusual warning not seen on any prospectus: "Mr. Buffett and Mr. Munger believe that Berkshire's Class A Common Stock is not undervalued at the market price stated above. Neither Mr. Buffett nor Mr. Munger would currently buy Berkshire shares at that price, nor would they recommend that their families or friends do so." When it comes to repurchasing Berkshire stock, Buffett wants to let shareholders know that he is buying back the stock because it is too cheap. He said he knows that Berkshire's intrinsic value is "significantly above" 1.1 times book value.

An analyst asked what Berkshire's capacity would be to repurchase shares and if a repurchase program above 1.1 times book value would be attractive. Buffett said he feels very comfortable buying back shares at 1.1 times book value as he wants the stock to be "significantly undervalued" to do a buyback. He said Berkshire's capacity for a buyback is in the "tens of billions of dollars" range as long as Berkshire's overall cash position doesn't fall below $20 billion. He said Berkshire would make significant money for shareholders if they buy back stock at 1.1 times book value.

Charlie added that some companies buy back their stock regardless of the stock price which is not Berkshire's practice.

Buffett agreed that some buyback programs are "idiotic", which are done more for management's ego. They buy back stock at a high price and then issue stock options at a low price. He said Berkshire will only do a buyback for one reason and that is to increase Berkshire's value and then do it in a big way.

Buffett was asked if Berkshire's buyback program put a ceiling on the stock price. He responded that he didn't think it put a ceiling on the stock price, and it also didn't necessarily put a floor on the stock price. With the stock currently selling close to Berkshire's buyback price, it perhaps signals that an investor won't have much to lose, but perhaps have a lot to gain. If we get into any kind of chaotic market, Berkshire will buy back a lot of stock.

EUROPEAN BANKS VS U.S. BANKS

Buffett said U.S. banks are in a much better position than 3-4 years ago. They have taken abnormal losses and increased their capital in a big way with liquidity now coming out of their ears. U.S. banks today are in fine shape. On the other hand, European banks were gasping for air last year until Mario Draghi, the European Central Bank president, injected $1.3 trillion into European banks, equivalent to 25% of all bank deposits in the U.S. This was a huge act designed to replace wholesale funding which was running off quickly at European banks. The European banks didn't want to raise capital which would be very expensive, but they were losing their funding base. The ECB solved the funding base for a cost of 1% annually for three years. Buffett joked that he would like to receive money at a cost of 1%, but he can't get it because he is not in trouble. Overall, U.S. policy was very sound during the financial crisis when the government told banks they needed to raise capital even if they didn't need it. The Fed and the U.S. Treasury handled the situation quite sensibly. The world would have been different otherwise.

Charlie added that Europe does not have a full federal union so it is very difficult for them to handle stresses. He matter-of-factly said, "I am more comfortable with the U.S."

Buffett agreed, saying it is a night and day difference between the U.S. and European banking system, since the Fed, the President and Congress all had the ability to address the financial crisis. He quoted Kissinger who once said, "If I want to call Europe, what number do I dial?" It is difficult to get 17 countries to agree on policies.

COAL AND NATURAL GAS PRICES

Buffett was asked if Berkshire's investments in BNSF and MidAmerican were an elegant hedge for coal prices as MidAmerican's utilities would benefit from lower coal prices while BNSF would be hurt due to lower shipments of coal when prices were low and vice versa. Buffett didn't agree as he said that MidAmerican passes on the changes in coal prices to its customers and doesn't really benefit from cheap coal. Because it is a regulated business, lower coal prices don't affect MidAmerican but do affect their customers who will enjoy lower utility bills. Coal traffic is down at BNSF because of low natural gas prices. Buffett exclaimed that if someone had told him that natural gas prices would trade under $2 per MMBTU at the same time that oil prices were trading over $100 per bbl, he would have asked them what they were drinking. He would not have thought that A 50 to 1 ratio between the prices would be possible. He said it will be interesting to see how the oil/gas ratio works out.

Charlie added that we should use all our thermal coal first for energy purposes and save our precious natural gas resources. Gas is worth more than coal, and we should save our gas for future generations. It is crazy to use up natural gas at these prices.

TELEMATICS AND GEICO

When asked if GEICO would use telematics (putting devices in cars to track personal driving) to set insurance prices, Buffett said they haven't done it at GEICO although he knows Progressive is experimenting with telematics. At GEICO they ask potential policyholders 51 questions (which he said is too many) to determine their propensity of being in an accident. Right now, he doesn't see telematics being important in determining the probability of an individual being in an accident, but if that changes, he would consider it. He said there are certain attributes such as a 16-year old male trying to impress his girlfriend which significantly increases accident rates. Credit scores also reveal the probability of an increase in accident rates although they are not always allowed to be used. GEICO's marketing, retention and risk-profiles of policyholders are all good. GEICO is carried on Berkshire's book at $1 billion over tangible book value, but the business is worth a whole lot more. It is probably worth $15 billion over the carrying value.

BUSINESS SCHOOL TRAINING

Buffett commented that business schools have taught a lot of nonsense about investing. Charlie chimed in that business school training has been a considerable sin, but it is improving. Buffett said investing has been the silliest stuff taught and that it is astounding how business schools have focused on one fad after another. Many of these fads are math-based so when they become popular, it is hard for the schools to resist teaching them as it appears that they are going against the current wisdom.

Buffett said investing is not complicated. Two courses are all that is needed:

1) How to Value a Business
2) How to Think About Markets

These courses would be much better than modern portfolio theory or option pricing. In valuing a business, if you buy the business for less than it is worth, you will make money. Business schools try to make it more difficult than that.

Charlie added that folly creeps into accounting. With option pricing, accountants wanted a standard model, so they didn't have to think too hard…"and now they have one!"

BUFFETT RULE

When asked about the Buffett Rule, Buffett said it has been interpreted in different ways by folks. Some find it more fun to attack what they think it says rather than the actual rule. The Buffett Rule was designed so that people who make very large incomes pay tax rates at least commensurate with the two-thirds of the people who get taxed, which only seems fair when asking for shared sacrifice. Currently the 400 largest incomes in the U.S. average $270 million per person with 131 of the 400 paying tax rates less than 15% even with payroll taxes included and 41 of the 400 pay tax rates less than 10%. The Buffett Rule would be required only for these large earners. It would affect very few people but would raise a lot of money. People who have huge incomes have seen the tax laws changed over time in their favor.

When asked if the Buffett Rule might be adversely impacting Berkshire's stock price, Buffett said he didn't think any employee of Berkshire should have their citizenship restricted. He proclaimed, "When Charlie and I took this job, we did not put our citizenship in a blind trust." He added he does not know the politics or religion of other CEO's for the companies he invests in for Berkshire. He doesn't want to know their politics or religion. He just wants to know how they run their businesses.

Charlie grunted that investors should own Fox if they make their investment decision based on politics while joking that "Warren's views on taxes for the rich reduced my popularity around the country club, but I'm willing to accept it."

LARGE CATASTROPHES AND REINSURANCE PRICING

Buffett said the random nature of catastrophes make it difficult to predict trends. At Berkshire they tend to assume the worst when pricing their reinsurance. In the last few months, Berkshire has written far more business in Asia than a few years ago since rates were inadequate back then. In the last year, there have been 2-3 earthquakes in New Zealand with the second costing $12 billion for a country with 4-5 million people. That was the equivalent to 10 Hurricane Katrinas. The floods in Thailand were also similar. Berkshire will take on big limits if they get the right price—up to $10 billion if it is not correlated with other risks on their reinsurance books. The reinsurance market is better than it was.

WIND AND SOLAR POWER SUBSIDIES

Buffett said MidAmerican has been engaged in wind power for some time and receives a Federal subsidy of 2.2 cents per kilowatt hour, which makes the wind projects work. They would not work without the subsidy. Berkshire has recently entered into two solar deals and received a commitment from Pacific Gas & Electric for long contracts on these deals. Neither the solar nor wind projects would work without the subsidies.

However, you can't count on wind for your base load if the wind doesn't blow. Wind power has to be supplemental to other power sources.

Charlie added that eventually we will need to count on power from renewable sources such as wind and solar so it is very wise for the government to subsidize these industries.

Greg Able, the CEO of MidAmerican, added that with their solar business they also receive tax incentives which enable them to recover 30% of construction costs. Since Berkshire is a big taxpayer, they can use the tax credits.

Buffett agreed, saying that Berkshire has a distinct competitive advantage in this regard as Berkshire pays lots of taxes and can use the tax credits which others can't use. Perhaps 80% of utilities can't reap the benefits of the tax credits as they use bonus depreciation which wipes out their taxable income, so they don't have the appetite for wind and solar projects. MidAmerican thus has the advantage.

LARGE ACQUISITIONS

When asked if Berkshire would consider acquisitions greater than $20 billion, Buffett noted that a month ago he did consider a large acquisition worth about $22 billion, but they couldn't agree on terms. He won't use Berkshire's stock at all right now to make an acquisition. (He said it was a mistake to use Berkshire stock to pay for 30% of Burlington Northern Santa Fe.) He said the proposed deal would have stretched Berkshire as he would have had to sell securities to fund the deal, but he would have retained $20 billion in cash. While he doesn't think he could currently do a $40 billion deal right now as he would have to sell about $25 billion of securities, he did joke that if anyone has any $20 billion deals, he does have an 800 number to call.

BRINGING BACK JOBS TO THE U.S.

When asked if Berkshire would consider bringing back jobs to the U.S., Buffett said that Berkshire currently provides 270,858 jobs and probably no more than 15,000 of those jobs are outside of the U.S. Iscar, the Israeli company Berkshire acquired, has global operations which employ about 11,000. Berkshire also has a U.K. utility operation and a Marmon unit does business in Australia. Berkshire's CTB unit also just made an acquisition in the Netherlands. Berkshire is investing more than $8 billion in capital expenditures this year with 95% of those investments being made in the U.S. Ten years from now Berkshire expects that they will have many more employees outside of the U.S. However, there remain plenty of opportunities in the U.S., which is a real land of opportunity.

Charlie grumbled, "You can't bring back jobs to the U.S. if they never left."

HOW ARE YOU FEELING?

Given the recent news of Buffett's prostate cancer, he was asked how he was feeling. He replied, "I feel terrific! I love what I do. I have more fun every day, a good immune system, and a great diet," as he munched on See's peanut brittle and chugged cherry Cokes throughout the meeting. He noted that he has four doctors, which include some who own Berkshire stock. He said he, his wife and his daughter met with the doctors to discuss the alternative treatments. His radiation treatment will not involve hospitalization and the survival rate is 99.5%.

Eighty-eight year old Charlie joked that he resented all the attention and sympathy Buffett was receiving as he believed that he had more prostate cancer than Buffett, but he just doesn't get tested for it.

Both see the prostate cancer as a non-event for Berkshire.

FOUNTAIN OF YOUTH

A 26-year old asked what areas Buffett would invest in if he were 26 again. Buffett said there are all types of investment opportunities, and he would likely do the same as he did in the past. Although he might have started out with an audited record of his performance to gain capital quicker so he could buy entire businesses. At Berkshire, they buy businesses to keep while private equity firms buy businesses to sell.

WHY IS BERKSHIRE STOCK UNDERVALUED?

When asked why Berkshire's stock is undervalued, Buffett said there have been four or five times during Berkshire's history that he thought the stock was significantly undervalued. Any business will be overvalued at times and undervalued at times. During the 2000-2001 periods, Berkshire stock was selling at a very low valuation. The beauty of stocks is that they do sell at undervalued prices at times, which is how he and Charlie got rich. He noted that this comes right out of "The Intelligent Investor" and pointed shareholders to Chapter 8 and 20. Mr. Market is a psychotic drunk who will do weird things over time. You should make sure Mr. Market serves you and not advises you. Mr. Market makes lots of mistakes. Oblige him. It is built into the system that stocks get mispriced. Generally speaking, Berkshire has sold on average close to its intrinsic value over the last 47 years. In the next 20 years, the stock will get significantly overvalued at times and undervalued. This is true of other stocks as well. Investors should make an investment decision based on what they think the business is worth. The stock market is the most obliging way to make money as you don't need to do anything most days. You can't do this with alternative investments like farms. When it comes to stock investing, the rules are stacked in your favor if you don't act like Mr. Market.

Charlie advised the crowd, "The faster you work yourself into our position, the better off you will be."

SYSTEMIC FEARS

Buffett said in 53 years of buying businesses or stocks, he has never considered macro fears when making his investment decisions. It doesn't matter to him what the headlines are or the fears that are in the market. If he likes a business and its valuation, he buys the business. In Oct. 2008, during the financial panic, he wrote a *NY Times* editorial discussing why he was buying stocks. It is important to look at value and not the headlines.

Charlie added that you do want to have liquid reserves at the bottom of panics so you can take advantage of the opportunities. Buffett agreed that the first rule of investing is not to go broke, so that you can always play tomorrow. Buffett noted that Charlie, who manages The Daily Journal, held cash for years and then during the stock panic purchased stocks as that was the time to use the money and not sit on it. Buffett joked that Charlie won't tell him the names of the stocks he bought.

COMPETITIVE ADVANTAGE IMPROVEMENTS

Buffett was asked which of Berkshire's businesses have increased their competitive positions the most over the last five years. Buffett responded that the railroad business has improved its competitive position dramatically over the last 15-20 years. The rail business is efficient and an asset which can't be duplicated for six times what it is selling for. Burlington Northern Santa Fe is worth billions more than what Berkshire paid for it. GEICO is another business that is a much better business than it was 5-10 years ago. In 1995, GEICO had 2% of the auto insurance market and now has 10% of the market. Tony Nicely, GEICO's CEO, has maximized the business. MidAmerican is a business that Berkshire paid $34 a share for in 1999 with the business now appraised at $250 per share. Iscar is another business doing extremely well.

Charlie wryly noted, "Berkshire is not suffering at all."

Buffett added that Berkshire is batting 80% when it comes to buying businesses. The mistakes occurred when the future of the industry was assessed inappropriately. Berkshire's big deals, however, have worked out very well. Even General Re is now working. Ajit Jain created a business now worth more than $10 billion from his brains alone.

Charlie succinctly summarized, "The good fortune for Berkshire won't go away even if Buffett dies."

DERIVATIVES

Asked who would run the derivatives after Buffett is gone, Buffett said there won't be much of a derivatives book after he is gone. The utility business will need derivatives to run their operations but not on a huge scope. It is unlikely that Berkshire's other investment managers, Ted Weschler and Todd Combs, will do anything in derivatives. As a side note, Buffett said Berkshire hit a homerun when they hired Ted and Todd. Buffett said Berkshire will do quite well with its existing derivative positions. However, collateral rules have changed regarding derivatives, so it is unlikely Berkshire will do more derivative investments. Buffett always wants to think about the worst case situation when it comes to investments.

Charlie added that Berkshire will likely make $10 billion or more on its derivatives, and that Berkshire is lucky they did those derivatives.

INTRINSIC VALUE OF INSURANCE BUSINESS AND REASONABLE MULTIPLES ON OPERATING BUSINESSES

Buffett said one should value GEICO and General Re differently. GEICO's intrinsic value is significantly greater than its book value plus float as the business generates significant underwriting profits and significant growth.

When Buffett was asked what a reasonable multiple would be for Berkshire's non-insurance businesses, he didn't answer directly but said he would love to buy operating businesses with similar attributes to his existing businesses if he could buy them at 9-10 times pre-tax earnings.

Charlie said other companies use EBITDA to value operating businesses, and he doesn't even like to hear that term, as it just means earnings before what really counts.

BERKSHIRE VS GOLD

Asked why gold has outperformed Berkshire since 1999, Buffett said you can always pick different starting periods for comparison. When Buffett took over Berkshire, the stock was trading for $15 a share and gold was trading for $20 an ounce. Today, Berkshire shares are worth $120,000 per share and gold is worth $1,600 per ounce. Over a 50 year period, Berkshire will do much better than gold as will other stocks. After 50 years, 1 oz of gold will still be 1 oz of gold. However, if you invest in 100 acres of farmland, you will have sold crops each year earning income annually and still have 100 acres of farmland. It is hard for an unproductive investment like gold to beat a productive investment like stocks or farmland over the long term. Buffett joked that if you say anything bad about gold, it arouses passion. He acknowledged that his Dad loved gold.

Charlie muttered that he never had the slightest interest in owning gold as he can't imagine a worst situation.

J.P. MORGAN VS WELLS FARGO

When asked why he owns J.P. Morgan in his personal account and not for Berkshire, Buffett said that he likes Wells Fargo more, and his best ideas always go to Berkshire. With 98.5% of his personal wealth in Berkshire Hathaway stock, he always thinks of Berkshire more. He knows Wells Fargo and finds it easier to understand than J.P. Morgan so he bought more shares of Wells Fargo last year for Berkshire and also during the first quarter of this year. If he wasn't managing money for Berkshire, he would have lots of money in Wells Fargo and J.P. Morgan, too.

Charlie added that he has no interest in diversification except for when it happens naturally at Berkshire as they acquire businesses. Charlie prefers buy and hold investing.

CAPITAL EFFICIENCY

When asked where Berkshire prefers to hold its cash among its various units, Buffett said the best place to have the money is in the holding company as it provides him with the most flexibility. Berkshire currently has $10 billion of its $20 billion in cash in the holding company. Money held in the life insurance companies is restricted, so it is better to hold cash in the property and casualty insurance businesses. The $20 billion in cash is considerably more cash than Berkshire needs to hold. However, this cash allows Berkshire to do things aggressively while still having its downside protected. Berkshire's railroad business is held within its National Indemnity insurance business unit as he thought the rating companies would like having a cash-generating business tied to the insurance business. He wants to be sure that he always leaves all business units adequately capitalized.

Charlie added that the insurance business has surplus capital which is a huge advantage and a wonderful position to be in. "Nobody else has it."

USING STOCK FOR AN ACQUISTION

When asked if it wouldn't be better for Berkshire's stock to trade at intrinsic value so it could be used to fund future acquisitions, Buffett said he would like to see Berkshire's stock trading at its intrinsic value, which will very likely occur in the future. However, even without a dividend, the stock has sold at or above intrinsic value as much as it has sold below intrinsic value. His goal is to have the stock sell as close to intrinsic value as it can, but it will bob over and below intrinsic value over time. When it trades at intrinsic value, Berkshire may use the stock for acquisitions, but Buffett still prefers to use cash for acquisitions. He doesn't like to trade the companies he already owns for a new company.

Charlie grumbled that what was suggested was the conventional approach, but he thinks it is better for Berkshire to do it their own way.

Buffett added that he would like to see the stock selling close to intrinsic value as he is giving away his shares to charity, and it would do more good if the stock trades at a fair value. If Berkshire performs well, over time, it will trade at a fair value.

NEWSPAPERS

Buffett was asked why he purchased the Omaha-Herald newspaper when he had said in the past that the newspaper business was not a good business. Buffett responded that the newspaper industry was once the primary source of information 50 years ago. Today, that advantage has gone to the Internet, which is more timely and cost-free. Newspapers have to be primary to some group to be relevant. While newspapers have lost primacy in many areas, they are still primary for local news. Newspapers are expensive to distribute, and their business model won't work if they give the information away for free by putting it on the Internet. The future for newspapers is for areas where there is a sense of community such as in Omaha. It won't be a bullet-proof business, but folks will still buy their local papers for the obituaries. The Buffalo News continues to make reasonable money for Berkshire. Berkshire may buy other local newspapers, but it won't be like the old days.

Charlie added that the newspaper industry is similar to when World Book encyclopedias was destroyed by Bill Gates. However, Berkshire still sells encyclopedias and makes reasonable money, but it won't be a great lollapalooza.

TECHNOLOGY IMPACT ON BUSINESSES

After asked how technology companies like Amazon may impact other Berkshire businesses, Buffett noted that Amazon is a powerhouse, which would not have an impact on Nebraska Furniture Mart (NFM) but could hurt Berkshire's other retailers. As a side note, Buffett noted that NFM was racking up record sales during the shareholder week with business already up 11% over last year with NFM generating $6 million in volume on one day alone. NFM will be expanding into Dallas and will have a store which is poised to set further records.

Buffett noted that GEICO was a business that was impacted by the Internet. Initially GEICO missed marketing on the Internet, but their business model changed dramatically due to the Internet.

Buffett concluded that Amazon has been a huge success with millions of happy customers.

Charlie agreed that Amazon has hurt a lot of businesses and has been terrible for most retailers, but said he won't be shopping on Amazon because "I hardly buy anything."

COMPETITIVE ADVANTAGE

It was noted that Berkshire's key competitive advantage has been its insurance business model with its negative cost of float.

Charlie said it is hard for others to get the same result by copying Berkshire's business model.

Buffett added that it took a long time for large private companies to recognize that if they want to sell their company, they should think of Berkshire first. Berkshire now gets the calls that others won't. It is a significant competitive advantage.

VOTING PROXIES

When voting proxies on Berkshire's publicly-traded investments, Buffett said he virtually never votes against management. There have been occasional times when he did vote against an issue such as when stock option grants have been egregious or a dumb merger was proposed. However, generally he likes the business and the management of the companies he invests in and votes with management. Berkshire is not in the business of trying to change the business. Like a marriage, it is not easy to change your spouse or children.

Charlie agreed exclaiming, "You said it all!"

COMMERCIAL INSURANCE

When asked if he would expand his commercial insurance business, Buffett said that he would do it if he could significantly expand into the business. He did that with a medical liability business 5-6 years ago. However, it is hard to think of many commercial insurance businesses that he would like to buy, but he would do it if he could find a quality business.

WAL-MART'S MEXICAN BRIBERY

When asked if Wal-Mart's Mexican bribery investigation would cause Buffett to change his position in the stock, he said, "No." He said Wal-Mart may have made a mistake in how they handled the situation, which could result in a significant fine. However, it doesn't change the company's underlying earning power five years from now. It will be a huge diversion of management's time.

Charlie added that he is not aware of any place where there isn't some slippage in a company as big as Wal-Mart. There will be glitches. However, there is nothing fundamentally wrong with Wal-Mart.

Buffett added that with 270,000 employees at Berkshire, they will have some people doing something wrong. They need to act fast when something wrong has been identified. Buffett is sympathetic to people running organizations with hundreds of thousands of employees.

HEDGE FUND BET

Buffett provided an update on his bet that the S&P 500 index would outperform a group of hedge funds. After four years, the cumulative loss of the S&P 500 index is -6.27% versus the hedge fund performance of -5.89% with six years to go. The loser of the bet will contribute $1 million to the winner's charity. At the time of the bet, the funds to pay off the bet had been placed in a zero coupon bond, which has significantly outperformed both the S&P 500 and the hedge funds.

GENERAL RE

After being asked a question on General Re, Buffett responded, "General Re was off the track when I bought it, and I didn't spot it." They got concerned about growth over profitability. Then Joe Brandon took over and focused on underwriting profit instead of premium volume. He got rid of a lot of accommodative business, which led to a drop off of volume. General Re is right-sized now in terms of business and will grow at a reasonable rate in the future. It is a terrific asset now. Their life and P&C business will grow but only if profitable.

Charlie added that General Re was a major fix-up operation and Berkshire got it done.

POST-BUFFETT BERKSHIRE

Buffett was asked if employees might leave or a hedge fund might try to take over Berkshire once Buffett is no longer there. Buffett said his successor will not turn off existing managers. He doesn't expect that they will leave for more lucrative jobs as they love the environment they operate in. Most of Berkshire's manager could retire now, but they continue to work as they are having fun. Buffett said, "I'm 81, and I have a lot of fun. Our managers work for the same reason. My successor understands that." Buffett also didn't think a takeover was likely because Berkshire's size is a huge factor. His estate will still own 20% of the votes in 10 years and will have ten times the voting rights. A takeover of Berkshire is, therefore, highly unlikely. Buffett added that shareholders do not need to worry about his successor, who will be better than Buffett in many ways.

Charlie added that the first $200 billion (in market capitalization) was hard for Berkshire to create, but the second $200 billion with the momentum Berkshire has will be pretty easy given Berkshire's culture. No one will want to change the culture.

Buffett agreed that Berkshire has the businesses in place to take Berkshire's market capitalization to $400 billion.

RETURNS ON CAPITAL-INTENSIVE BUSINESSES

Buffett said capital-intensive businesses will be unattractive unless an investor gets a respectable return. For the utility businesses, a 12% regulated return is satisfactory--the same thing with the railroad business which also earns reasonable returns. If Berkshire were able to earn 20% returns with the large sums they have, then the 12% returns wouldn't be as attractive. However, Buffett said they will be happy if they can earn 12% with no-cost float from their capital-intensive businesses.

Charlie grunted in agreement, "I think it will work very well. Don't listen to the siren song."

SLOWING FLOAT GROWTH

Buffett said Berkshire's float could shrink as large retroactive insurance contracts run off. Berkshire's small insurance companies will continue to enjoy net growth; however, Ajit's retroactive business is a melting ice cube. With $70 billion in float, Berkshire will look for intelligent ways to grow it. Berkshire has the smartest guys in the business, but there will be a natural run-off. Investors should not extrapolate the previous growth of float. The float will dwindle down but not at a fast rate, which is why Buffett alerted shareholders to this in the annual report. Ajit said it has now become a challenge to him to grow the float. Buffett acknowledged that five years from now, the float could be slightly higher.

Charlie added that the casualty insurance business by its nature is a great business. Berkshire has the best large-scale casualty business in the world. It won't grow wildly in the future, but that is not the end of the world. Buffett agreed, saying that Berkshire's insurance business has "done wonders for us." Charlie said, "Ajit has worked wonders. If Matt Rose (CEO of BNSF) has to carry some of the weight, that is good, too."

HOW TO VALUE DECLINING BUSINESSES

When asked how to value declining businesses, Charlie jumped in and retorted, "They aren't worth nearly as much as growing businesses."

Buffett said it generally pays to stay away from declining businesses. If he thinks a business is going to decline, he avoids it. In buying newspapers, he will buy the business for a price, but this isn't an area where Berkshire is going to make their money. It is not worth Berkshire spending its time on cigar-butt stocks, where there is one free puff left in the business. It works out better to invest in growing businesses, although Buffett admitted that they are playing out some declining businesses. He said Berkshire actually started out investing in declining businesses like textiles, department stores and shoes.

Charlie agreed, "We are specialists. Blue Chip Stamps was another declining business. However, with what came out of these declining businesses, Berkshire made a fortune. But we are not looking to repeat the process. "

Buffett agreed, recalling the $6 million they invested in Diversified Retailing, which he joked only had one store despite its name. Even though the business failed that $6 million investment is now worth $30 billion. Buffett concluded, "We were sort of masochistic in the early days." Charlie chimed in, "Ignorant, too!"

FOLLIES AND FADS

When asked what businesses today appear to be follies, fads, unsustainable or dumb, Charlie snorted, "A lot!"

Buffett said Berkshire stays away from businesses they don't understand. He wants to invest in businesses where he has a reasonable idea of what the earnings and competitive position will look like in 10 years. If the price is crazy, that will eliminate many other companies from consideration. There is a small universe of businesses Berkshire will buy. In 30 years, Berkshire has not purchased a new issue. The seller has the choice of when to bring the company to the market. Charlie noted that the 7% commission on initial public offerings (IPOs) makes them unattractive. Buffett added that with initial public offerings, they would have to be the best deal out of thousands of other opportunities that aren't being promoted. Buffett said he doesn't spend five seconds on IPOs. Buffett has a number of filters before he will even think about a business. He often cuts off someone who it promoting a business to him within minutes since it doesn't pass his filters. He joked they probably think he is rude, but Charlie is more so. Buffett said investors don't have to do many things to be successful. That is the beauty of the business. You need to avoid big disasters. You never want to lose a big percentage of your net worth.

Charlie agreed and said that any investment with a large commission should be avoided. He also advised looking at investments that other smart people are buying which isn't a crazy search process.

INVESTMENT COMPANY ACT OF 1940

When asked if Berkshire might be subject to the regulations of the Investment Company Act of 1940, Charlie retorted, "That is too remote. It won't happen."

Buffett agreed noting that Berkshire won't come close to becoming an investment company subject to the regulations of the 1940 Act. He pointed out that Berkshire owns eight companies that on a standalone basis each would be in the Fortune 500.

TECHNOLOGY COMPANIES

When asked if Google and Apple might be entrenched leaders in technology like IBM, a recent Berkshire purchase, Buffett said that Google and Apple are extraordinary companies. He said both companies will make lots of money and will be tough to dislodge. Given their high returns on invested capital, it would not be surprising to see them both worth more in 10 years. However, he said he wouldn't buy either of the companies, although he wouldn't short them either.

Charlie added, "Others will always understand technology better than us. We have the reverse of an edge."

Buffett said IBM is easier to understand, although that is not to say that Google and Apple could do much better than IBM. It is hard to predict which companies can change the world like Apple.

BURLINGTON NORTHERN SANTA FE AND POLITICS

Buffett said Burlington Northern Santa Fe (BNSF) runs its own business, and that he talks to Matt Rose, the CEO, once every three months on the phone. Railroads and utilities are impacted by the political process, but they have economics on their side. Railroads are more efficient than trucks in moving goods. That won't change no matter what the politics. There will always be struggles with competitors and customers, so the railroads will be involved in the political process. Buffett said he likes Berkshire's position and thinks it would be dumb for the country to discourage railroads to take care of the transportation needs of the country. There should be a strong interest in having railroads invest in their infrastructure and pay their own way.

Charlie added that it is the nature of things for businesses to have waves of good and bad breaks. BNSF was helped by higher tunnels and stronger bridges. They were also helped when oil was discovered in the Dakotas with no pipelines to transport it. He concluded that BNSF is a terrific business with terrific management.

Buffett noted that after World War II, the rail industry employed 1.7 million workers and now employs 200,000, which shows how much more efficient the business is. The railroads are good ways to move heavy stuff a long way.

PRESENTATION OF BERKSHIRE'S PERFORMANCE

When asked if Berkshire's presentation of its book value performance against the S&P 500 index performance wasn't misleading as displayed in the annual report, Buffett said if he compared the market value of Berkshire's stock performance against the S&P 500 index, Berkshire's advantage would be much larger. The gain would be 35% higher in aggregate than the book value comparison. He could also compare the S&P's book value performance against Berkshire's book value performance, but it would be a wash with the current presentation. He concluded that he could make comparisons that were more favorable but none that were worse than the current presentation.

Charlie noted that Berkshire's long-term stock value tracks its book value. He grumbled, "You have been criticized for making yourself look worse. That's alright, you can bear it."

SHARING INFORMATION ACROSS BUSINESS UNITS

When asked if businesses share information across their business units, Buffett said there is nothing organized across the various business units to share information. Berkshire wants their various businesses to run autonomously. Buffett doesn't tell the folks at Clayton Homes to buy their carpet from Shaw or paint from Benjamin Moore. Any incremental sales from centrally directing those decisions would be offset from managers who prefer to run their own businesses.

Charlie grunted, "We are trying to fail at what you want us to succeed at."

FOREST PRODUCTS

A professional forester asked if Buffett had any thoughts of investing in a forest products firm given the synergies with many of Berkshire's other businesses. Buffett responded that he would not look at how other subsidiaries would benefit from a Berkshire acquisition. He says he has looked at forest product companies, but "The math has escaped us for a successful investment."

Charlie added that most forest product companies have profits that flow through partnerships, which would be a disadvantage to Berkshire. Buffett agreed it would be a structural disadvantage.

IS $20 BILLION IN CASH A MAGIC NUMBER IN TERMS OF RISK MANAGEMENT?

Buffett said his decision to hold $20 billion in cash is not a magic number. He said there are no magic numbers in risk management, especially if expressed in terms of sigmas as other companies try to do. At Berkshire, Buffett tries to think of the worst-case situation and adds a huge margin of safety. He doesn't ever want to have to go back to "Go" again. While he may be ultraconservative, he has to consider 6000 shareholders. He won't risk what Berkshire has and needs for what Berkshire doesn't have and doesn't need. In recent times, we have been through 9/11 and Sept. 2008, and we will see similar episodes in the future. Buffett wants to sleep at night during those periods and have the liquidity to be able to invest during those times so Berkshire will remain excessively conservative.

Charlie questioned, "How do super smart people do dumb things?" He answered, "To a man with a hammer, every problem looks like a nail."

Buffett said that when it comes to risk management, many folks have a lack of financial history. When Buffett started in 1962, he spent $7 on an art budget so he could line up photos of financial history in his office, including the May 1901 corner of Northern Pacific stock which led to a market collapse. He told the story of Northern Pacific and how margin calls resulted in one fellow committing suicide by jumping into a vat of hot beer. Buffett joked he doesn't want to end up in a vat of hot beer. He concluded that life in financial markets has no relationship to sigmas.

Charlie agreed that a lot of false confidence is created from risk models. They should throw away the Gaussian curve and use curves with fat tails, but the problem is we still don't know how fat to make the tails.

LOSS OF SWISS RE CONTRACT

When asked about the loss of a Swiss Re insurance contract that will end in 2012, Buffett said that they always hope to gain more volume, but that has no relationship to expirations of contracts they already have. Berkshire has the capacity to take on more business.

Charlie added that there is no other insurance business as cheerful as Berkshire in terms of losing business. He said they don't measure their insurance business by size.

FANNIE MAE AND FREDDIE MAC

After a shareholder asked a zillion questions about the solution for Fannie Mae and Freddie Mac, Buffett joked that he got through college answering fewer questions than that. He acknowledged that Fannie Mae and Freddie Mac are still a mess. Congress can't agree on a structure to finance mortgages. The government guarantee program brought down mortgage rates. There are 50 million residential mortgages that total $10 trillion. While it is important to have programs to minimize costs, Buffett expects that Fannie Mae and Freddie Mac will stay in conservatorship for a long time.

Charlie noted that Canada had no trouble with their mortgages. In the U.S., we departed completely from sound lending policies and the government participated in the folly. Charlie exclaimed, “Alan Greenspan overdosed on Ayn Rand when he was young! This caused enormous damage to our economy. Greenspan was really wrong.” It was a disgraceful period in our history to have to nationalize Fannie Mae and Freddie Mac.

COMPENSATION OF INVESTMENT MANAGERS

Buffett said the investment managers Berkshire hired last year, Todd Combs and Ted Weschler, have a strong performance track record, intellectual integrity, quality of character and a lifetime of commitment to Berkshire. Berkshire will pay them a salary of $1 million each plus 10% of the amount the portfolio they manage beats the S&P 500 over a rolling three year period. Each is paid 80% based on their own efforts and 20% based on the other’s efforts. This was the same compensation structure Berkshire had with Lou Simpson. It is up to each manager if they want to employ folks underneath them. They each will be managing $2.75 billion this year, which is an increased amount over last year. If they are considering investing in a new position, they don’t discuss the decision with Buffett, they just need to tell Buffett the name to ensure there is no conflict of interest with other activities Buffett may have with the firm. Both investment managers are able to operate in different stocks than Buffett can as the size of their portfolio allows them to invest in a larger universe of companies. They will both do a good job for Berkshire. Todd did substantially better than the S&P 500 index last year.

Charlie noted that 90% of the investment management business would starve to death on our compensation formula. He noted both investment managers could earn more elsewhere but would be operating in a less desirable environment. At Berkshire they get to enjoy free Coke machines.

GEICO’S COMBINED RATIO

When asked about GEICO’s combined ratio exceeding 100% in the first quarter, Buffett pointed to the 10-Q discussion on the accounting change GEICO had to make which impacted their combined ratio. Buffett said GEICO’s underlying business is good. GEICO is a terrific asset for Berkshire and will be worth a lot more the future.

HOW TO IDENTIFY ENVIRONMENTALLY FRIENDLY BUSINESSES?

When asked how Berkshire identifies environmentally-friendly businesses like Burlington, Buffett says he looks at every aspect of the business and the industry to see how they will develop in the next 5-20 years. He said there are no magazines that will point you to that. You need to look at the industry dynamics. He mentioned the environmental thing related to railroads because it takes fewer resources to move items by rail than by truck. He has high confidence in how a business like Coke will develop over time but less confidence in retailers.

Charlie answered more directly, “Even though Warren is an unseasoned young man, he was able to figure out that railroads generate less pollution.”

MOTIVATING MANAGEMENT

When asked how he motivates management, Buffett said he gets to paint his own painting every day in managing Berkshire. If someone came along and told him to use more red in his painting, he might tell them what to do with the paintbrush. He also says he likes applause at which point the audience applauded loudly. He said he does the same thing for Berkshire’s managers. He gives them the paintbrush to paint their own painting and doesn’t tell them what to do. He compensates them fairly and applauds them.

Charlie added that there is no standard compensation formula at Berkshire. He snorted that for most compensation consultants, “Prostitution would be a step up for them.”

GDP GROWTH

When asked what it would take to get U.S. GDP growth of 4% again, Charlie said, “It won’t be easy.” Buffett said it would be nice to have 4% GDP growth in real terms, but that 2.5% growth, while slower, would still be a remarkable rate of growth for the U.S. economy, which would result in a higher standard of living. During Buffett’s lifetime, the standard of living has increased six-fold. The U.S. is very rich with $48,000 per capita. The U.S. has huge abundance and all kinds of strength. The U.S. has been a utopia. Our country is not a mess, although our politics may be.

Charlie added that a very mature economy with lots of social safety nets and lots of competition which increases GDP at a 1% annual rate will see the standard of living increase 25% in 25 years. If we set our expectations too high, then we get into trouble trying to reach unattainable goals.

Buffett agreed and said that the U.S. system still works with business profits as a percentage of GDP at high levels.

SUPER POLITICAL ACTION COMMITTEES (PACS)

When Buffett was asked if he will contribute to super PACs, he emphatically said, “NO!” He thinks the whole idea of super PACs is wrong. He doesn’t want to see democracy go in that direction.

Charlie said he also doesn’t like super PAC’s although he would contribute to one if it could reduce legalized gambling. He said we were lucky to have two Presidential candidates as good as we have this election.

SHORT-TERM PRICE MOVEMENTS

A shareholder asked if Mr. Market was manic about Berkshire, since the stock hasn't budged since the beginning of last year even through the portfolio has grown. Charlie retorted, "The market is not going to do what you want, when you want it. If short-term orientation is what turns you on, then you are not welcome in this room. You should feel better about the margin of safety in Berkshire."

DIVIDENDS

Buffett repeated Berkshire's long-time policy that dividends will not be paid as long as they feel they can create more than $1 of value for each dollar retained in the business. If shareholders want a dividend, Buffett suggests that they sell a bit of their stock. Buffett said if Berkshire had paid dividends, the net worth of Berkshire would be worth less than it is today.

Charlie responded that dividends will come in due course, but "We hope that evil day is delayed."

Buffett added that the last few years have been better than expected in terms of the ability to deploy capital. Charlie chimed in that MidAmerican could put to work $100 billion. He joked, "We will think about dividends when we are older."

INVESTING SMALL SUMS

When asked if they were younger and only had $1 million to invest, could they generate higher returns. Charlie said, "There are lots of things I could do better when I was younger." Buffett said in the past 50 years they have learned more so if they were starting over, they could look at more areas. Charlie agreed and said, "Berkshire's record would have been terrible if Warren hadn't kept learning, which is pretty much the human condition."

MISTAKE MINIMIZATION

When asked how Berkshire minimizes mistakes, Buffett quickly said, "We will make more mistakes." However, they always think about worst-case situations so they don't expect to make big mistakes. A constant study of other people's disasters helps to minimize mistakes along with reading financial history. Understanding how humans behave is more helpful than a 180 IQ.

BARRIERS OF ENTRY

When asked how Berkshire builds barriers of entry, Charlie quickly responded, "We buy barriers, we don't build them."

Buffett added that some industries don't have barriers of entry into the business, and you need to run fast from those businesses. A great barrier of entry is a business like Coke. Buffett said if he was given $10-$20 billion to compete against Coke, he couldn't do it He noted how Richard Branson tried to compete against Coca-Cola with Virgin Cola, but you no longer hear about that brand, as it was hard to know what that brand promised. Buffett noted that railroads also have huge barriers to entry as no one is going to build another railroad.

Charlie added that some businesses just need one competitor to ruin the business.

BYD ELECTRIC CAR

Charlie said the car market in China is huge. The first electric cars in the U.S. will likely be for fleets and require subsidies. When Buffett asked what percentage of cars in 2030 will be electric, Charlie responded, "Not many."

ECONOMIC GOODWILL OF INSURANCE BUSINESSES

Buffett said GEICO's economic value comes from using float at bargain rates. GEICO will have fairly substantial underwriting profits and growth as far as the eye can see. This very attractive combination results from GEICO being the low-cost producer and its economies of scale. It is always good to own low-cost producers. GEICO has 10 million policies producing good results aided by its statistical business model. Tony Nicely, GEICO's CEO, has quintupled GEICO's market share and done it with good underwriting results. In contrast, Aji has to be smart on each deal. His economic goodwill is due to skilled pricing for each transaction and his ability to find people who want to do the large deals.

The insurance businesses provide Berkshire with large float at a negative cost. People are paying Berkshire to hold $70 billion, which is "quite fun."

Charlie added that we are currently in a low-return environment. Previously, Ajit was able to generate a large float, and Buffett would earn 20% on the float before they had to give the money back. Buffett also lamented the low interest rate environment we now are in as the $20 billion being held in cash is not earning anything. Berkshire's normal earning power is being suppressed by Bernanke.

ENERGY INDEPENDENCE

Buffett said it would be a net positive if the U.S. became energy independent. While he doesn't see the U.S. becoming self-sufficient in oil, natural gas will help. The energy picture has improved over the last three years.

Charlie grumbles that we would be better using someone else's oil than our own. He says our energy sources are our most precious reserves. He believes we should conserve our natural resources for future generations. He joked, "I also think I'm right to save up sex for old age."

EXCESSIVE EXECUTIVE COMPENSATION

When asked about excessive executive compensation at a mutual insurance company, Charlie responded that most mutual companies don't have that kind of egregious compensation. Buffett added that CEO compensation compared to average employee pay has widened. The tax code has favored the rich over the poor. Trickle down economics has not worked. These types of trends will push a democracy to a plutocracy.

SOVEREIGN DEBT LEVELS

Buffett joked that the nice thing about sovereign debt is if they don't pay you back, you can't take anything. Sovereign debts have defaulted many times over history. This results in a big reallocation of wealth. Buffett admitted he doesn't know how it plays out in Europe. It might have a bad ending. He prefers a world that keeps its fiscal house in order. When in a recession, sovereign debt feeds on itself. When a government like the U.S. is operating at a deficit of 8%-9% of GDP, this is a huge fiscal stimulus. We need to wean ourselves off of it soon. We need revenue of 19% of GDP and expenses of 21% of GDP, and then the economy will work fine. Government leaders should negotiate in private to reach that goal. Meanwhile, investors should avoid medium to long-term government bonds from the U.S. and other countries.

Charlie added that it is very hard to know if Keynesian economics will work. We have lost all fiscal virtue. It is a terrible problem, and we could get a mediocre result. Charlie added everyone wants fiscal responsibility but not quite yet. He said it is like St. Augustine, who as a youth prayed to give up sex "but not yet." Charlie said the government should spend sensibly on infrastructure. "We need more sacrifice, more patriotism and more civilized politics."

CORPORATE TAX RATES

Buffett said the actual tax rate paid by U.S. corporations last year was 13% of profits. This is much lower than the 35% standard rate due to the write-off of depreciation. Corporate profits are not the problem as U.S. corporations have good balance sheet and high liquidity. They will push forward with opportunities, including at Berkshire. It is not a lack of capital or tax rates that are holding back investments. In the 1950's, corporate tax rates were 52% and corporations actually paid those rates. Corporate taxes represent 1.2% of GDP, while healthcare costs are 17.5% of GDP, which is a huge tapeworm, especially as compared to the rest of the world's healthcare costs.

Charlie added that he used to expect to live long enough to see a value-added tax (VAT), but now he is not so sure. "We should tax consumption."