

**THE WOODSTOCK OF CAPITALISM  
MAY 2, 2009**

On a personal note for the third consecutive year, Manuel Rosado, Jonathan Marshall and I from our office, along with Gary Vanden Heuvel, President of the BLC Community Bank and Scott Fiducci from the Davis & Kuelthau law firm attended the annual Berkshire Hathaway shareholder meeting in Omaha, Nebraska. Many refer to the meeting as the **Woodstock of Capitalism** with over 35,000 shareholders attending on May 2, 2009. The core of this year's meeting was a five hour question and answer session from shareholders and also three members of the media. As Warren Buffett, 78 and Charlie Munger, 85, answered questions, we couldn't help but think how precious it was to witness two industry icons discussing the market at their age. We loved Warren Buffett's longtime sidekick Charlie Munger. He often supplemented Warren's answers with comic relief. However, if he didn't have anything to add, he would simply say "I have nothing to add". Below are a few of the questions that Warren Buffett and Charlie Munger answered:

**How much research should I do in determining whether or not to buy a company?**

**WB** *Look for a brand name stock with a durable competitive advantage, preferably with a wide moat that doesn't constantly require new capital. If you need to use a computer or a calculator to determine whether you should buy the company, don't buy it. It's too complicated. You need to keep it simple.*

**CM** *Some of the worst business decisions are made with way too many calculations. Generally it is quite smart to copy very successful investors. Warren and I copied Ben Graham's thoughts on investing decades ago.*

**When will the housing sector turn around?**

**WB** *In the United States, the average number of housing units built each year is 1,300,000 to satisfy demand. In the early 2000's, we had multiple years of over 2,000,000 units built per year, which is now down to 500,000 units per year. With the current excess inventory of approximately 1,500,000 housing units, at the current building rate of 500,000 a year, it will take approximately two years to eat up the excess inventory before housing can return to its normal building rate.*

**What went wrong with our economy in the past two years?**

**WB** *The impact of derivatives caused leverage to run wild and add strain to the economic system.*

**CM** *Leverage is what causes people trouble in this world.*

**Can you comment on the role of directors in this economy?**

**WB** *Directors, who are overly compensated, can be dangerous to a company's future because they tend not to disagree strongly with the CEO. Once a board of directors picks the right CEO, the second most important job is to not let the CEO overreach from a bout of over confidence, which usually occurs after a great year.*

**CM** *A lot of companies are run stupidly by trying to outdo the previous quarter – short term thinking.*

**Our country is spending approximately 10% of the stimulus package on infrastructure. Should we be spending more of the stimulus package on infrastructure?**

**CM** *Warren, let me answer this one. Yes!! (Resulting in a big roar from the crowd) Our nation's electrical grid needs a major update.*

In comparison, China will spend upward of 75% of its stimulus package on infrastructure with plans to build 30,000 miles of new roads in this decade. (*BusinessWeek* 7/1/09) China will also sell 11 million vehicles this year up a stunning 20 times the number of vehicles sold in China just a decade ago. China will likely overtake the USA where expected new vehicle sales this year will be 10 million units, making China the biggest car market in the world. USA auto sales hit 16 million as recently as 2007. (*USA Today* 6/14/09)

**What should I look for in attempting to hire a manager for my company?**

**WB** *Look for a manager that loves what he does. You can spot people that love and have passion for their jobs. Also, look for managers who have the vision to anticipate things that have never occurred before. A key question regarding the potential of a manager's vision, is how much and what do they read. (Warren Buffett reads 4-5 hours a day.)*

**How smart do I have to be, to be a good investor?**

**WB** *If you have an IQ of 150, sell 30 points. It's controlling your emotions versus having a high IQ that makes the difference in being a good investor.*

**Why not go to cash in a market that is trending down?**

**CM** *We would not want any of our managers to go completely to cash, it's too big of a bet.*

Charlie Munger and Warren Buffett follow the teachings of Ben Graham, author of the [Intelligent Investor](#), who suggests a minimum of 25% in stocks and a maximum of 75% in stocks. Ben Graham says "if you don't know what else to do, invest 50% in stocks and 50% in bonds". Warren Buffett kept repeating Ben Graham's words at the meeting, "have a margin of safety". ([Intelligent Investor](#))