

The world according to Warren & Charlie

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Despite being in their nineties, legendary investors Warren Buffett and Charlie Munger remain as sharp and straightforward as they have ever been. Straight from the American Midwest: no-nonsense as an art.

Omaha, Nebraska, May 6

Central bankers touch the world in a profound way with a mystic hand, as I argued in my book with the same title. Warren Buffett and Charlie Munger also touch the world in a profound way but not with a mystic hand, more so with a golden hand. Buffett and Munger's vehicle for their very successful investment strategy for already 58 years now is Berkshire Hathaway. The track record of Berkshire Hathaway is truly impressive: since 1965 its compounded annual returns reached 20%, close to double the rate of return of the S&P stock index.

On May 6 Berkshire Hathaway held its annual meeting in Omaha, Nebraska. Tens of thousands of shareholders made the trip to the heartland of the American Midwest to be part of what has over time become a legendary happening lasting for two days. Fun, entertainment and marvellous insights seamlessly come together.

The big news that Buffett and Munger brought was that during the first quarter of this year they sold stocks to the tune of \$ 13,3 billion bringing their

cash holdings to \$ 131 billion. Two reasons for this strategy were given. First, markets and the economy are very volatile and uncertainty is everywhere. So it is hard to come to correct evaluations of companies. Hence, a pause in stock investment. Second, due to the rise in interest rates the return on cash holdings has become quite attractive. Warren Buffett mentioned a return of + 5% on Berkshire's deposits. It is hard to deny the simple but firm logic behind this recent strategy chosen by Buffett and Munger.

But both *buddies* did more than just comment on Berkshire's recent strategy to dig deeper into cash. Some of the most remarkable comments of Buffett and/or Munger went as follows:

- On their success: "We don't do anything we don't like to do. Also our bad deals gave us fun. If you play golf and every time you hit a hole in one, would you still play the game? Also important is that we never take emotional decisions"
- On the economy: "Nothing is sure these days. What we certainly do is no longer pay any attention to what forecasters have to say"
- On the principles for value investing: "Not much has changed. There will always be opportunities. Watch out for people doing stupid things with other people's money"
- On the looming crisis in commercial real estate: "There is a lot of troubled office buildings, troubled shopping centers and just a lot of troubled real estate in general. What we are starting to see here are the consequences of being able to borrow money at practically no cost"

- On bankers: “A bunch of bankers trying to get rich do stupid things. Imagine a nuclear engineer trying to get rich. In modern banking there is just a lot of temptation to do the wrong thing.”
- On debt escalation and possible de-dollarization: “The problem for Fed-chairman Jay Powell is that he’s not in control of fiscal policy. Nobody knows how far you can go with a paper currency before it gets out of control. What we do know is that when we go too far in this money printing, it will be painful and difficult to correct. We cannot print money indefinitely, that is for sure. Let us all hope for good leadership”
- On the debt ceiling in the US: “The ceiling will be raised or the world will be in turmoil”
- On climate change: “We hear pretty strong claims about its consequences but it is quite clear for us that there is still much uncertainty here. But even without climate change we would have to focus for our energy needs more on renewables”
- On human nature: “You need to discover how some people succeed in manipulating other people and then you should resist to do it yourself”
- On clever people: “I prefer a guy with an IQ of 130 who thinks it is 120 to a guy with an IQ of 150 who thinks it is 160”
- On private equity funds: “They lack long term vision. The moment they sign the documents of the deal their thoughts are already focused on their exit”
- On the legal profession: “It is a pie eating contest and when you win you get more pie”

- On Elon Musk: “He overestimates himself but he surely is very intelligent. He likes taking on the impossible. We don’t do that”

At the ages of 92 for Warren Buffett and 99 for Charlie Munger it is utterly impressive how clear-minded and attuned to the present-day realities both men still are. They entertain their enthusiastic shareholders for many hours in a row without showing signs of fatigue or reductions in the attention span. But the time to move aside seems to have come, so both men suggested on May 6. Are the heydays of the annual Omaha fair also over?