

In the court of the wise old owl of finance

No matter the economic hassle, everyone turns to Warren Buffett

David Alder



consider withdrawing from the European Union, and Trump storming towards the White House adds to the uncertainty. Amidst all this, 40,000 investors, fund managers and economic commentators last week sought comfort and guidance not from politicians in Washington, London or Tokyo, but from an elderly gentleman from Nebraska.

Because they all know that when the going gets tough, the tough speak to Warren Buffet, the Sage of Omaha.

Last weekend, they flocked from around the world to the city on the banks of the Missouri River for the annual general meeting of Mr Buffett's \$US360 billion Berkshire Hathaway — an event known as the Woodstock for Capitalists.

Omaha was inundated with private jets and media, while hotel rates rocketed to \$US25 a night to

take advantage of the influx. Enthusiasts queued in the rain at 4am to secure a seat.

Berkshire is the world's fifth largest public company and employs more than 361,000 people. It has significant operations in investments, insurance, railways, utilities, manufacturing, services, retail and home-building.

The conglomerate has partnered with private equity firm 3G Capital to acquire both Heinz and Kraft and it owns nearly 100 businesses and a share portfolio valued at \$US176 billion, comprising Kraft Heinz, Wells Fargo, Coca-Cola, IBM, American Express and Bank of America.

The meteoric rise in popularity of this event is unsurprising given Berkshire's remarkable performance over the past 51 years.

It has recorded negative returns only twice since 1965 — one in 2008 during the height of the GFC. In the same time period, the S&P 500 has recorded 11 separate years of negative returns.

The book value of Berkshire has grown at a compound rate of 19.2 per cent a year, a performance largely attributed to the value investing

philosophy of its chairman, chief executive and largest shareholder — Mr Buffett, the world's third-richest man with a net worth estimated at \$US62 billion.

The Buffett brand transcends investment circles because, as well as his enormous riches, there's his folksy wit and humble lifestyle. At a time when Americans are growing increasingly resentful towards the wealthiest "one per cent", the man who represents this group is cherished by most as a wholesome symbol of the ultimate American dream. Unlike Wall St, Mr Buffett speaks the truth.

He has long been against broadcasting the AGM but this year, for the first time, Berkshire webcast it, expanding the audience to millions.

After attending in 2014, I opted to road test the online version, tuning in to watch



World's third richest: Warren Buffett has a net worth estimated at \$US62 billion.

Buffett's key messages

■ He remains upbeat on the US economy. "If the country's population kept growing at 8 per cent per year, the economy would enjoy a 34.4 per cent gain in real GDP per capita in a single generation of 25 years. For 240 years it's been a terrible mistake to bet against America, and now is no time to start."

■ Coca-Cola's critics shouldn't blame the company's sugary beverages for obesity. He gets "about one quarter of his calories from Coke products

every day" and everyone has a choice about whether to consume more calories than they need and it's not Coke's fault if they do.

■ Avoid envy. Investors shouldn't envy someone who profited by buying shares in a company's initial public offering or claimed a lottery jackpot. Try to find investments that make sense to you and think of stocks as a slice of an individual business that you'd be comfortable to own for the long term.



85-year-old Mr Buffett and Berkshire vice-chairman Charlie Munger, 92, field nearly six hours of questions from shareholders, reporters and analysts about the company, investing, the economy, corporate governance and life.

Would the experience at home in the lounge room be equal to attending in person?

Yahoo kicked off proceedings with a video to illustrate the significance Berkshire holds in the American economy. It demonstrated that a person could go through an entire day only using products and eating foods made by companies wholly or partly owned by Berkshire.

The meeting officially began with a humorous movie filled with a mix of skits and ads for the company's products. One of the parodies showed Mr Buffett campaigning to earn a spot in the *Celebrity Apprentice* show

with Arnold Schwarzenegger.

As the Q&A session began, it was clear that both Mr Buffett and Mr Munger were as sharp and humorous as ever.

Mr Buffett offered a preview of the first-quarter results (profit up 8 per cent) before taking more than 60 questions on a variety of issues including the performance, management style and diversity of Berkshire and their rationale for always holding at least \$US20 billion in cash ("credit is like oxygen" — don't take it for granted).

They spoke about everything from the recent acquisitions of Precision Castparts (the biggest ever at \$US32 billion) and Duracell batteries, to broader issues such as the current state of the US economy, climate change, cyber attacks and the effect a Trump presidency might have on America's economic prospects.

With Bill Gates and the other

Derivatives remain dangerous and the problem is largely in the counter-party risk. A major terror attack or some such "discontinuity" will lead to a lot of problems. When markets reopen after such an event, he believes some of the counterparties will no longer be standing. In addition, the derivative contracts big banks hold on their books can make them hard to evaluate. For the record, in 2015 he did say he was interested in buying into Australian banks over the next five years because he was "comfortable" with them. He has also set aside a \$2 billion war chest for investment here each and every year.

Hedge funds and investment managers who actively manage others' money provide few real benefits. "There's been far, far more money made by people in Wall Street through salesmanship abilities than through investment abilities," he said. Large investors should be irritated with fees they're paying hedge fund managers who fail to match the returns of index funds. Hedge funds traditionally charge a management fee that's 2 per cent of assets, plus 20 per cent on any profits. That's "a compensation scheme that is unbelievable to me".

He has considered his eventual departure with as much or more care than any investing problem he's ever tackled. He believes Berkshire will stay Berkshire after he's gone. While he intends to remain at the helm for about another decade, he expects that whoever replaces him "will have their own Munger" and a "Dynamic Duo" is a good approach to take.

Surrounded: Mr Buffett speaks to the media during Berkshire Hathaway's annual general meeting in Omaha. Picture: Washington Post/Bloomberg



board members there, it was quite a sight as I pondered the collective net worth of the attendees and the power of capitalism in the Land of the Free.

Underneath the AGM venue on the Friday and Saturday sits the CenturyLink Centre;

Borsheims' (the jewellery company) biggest sellers could well have been their Berkshire branded necklaces and bracelets in yellow gold or white gold at US\$775 each.

Total sales for the vendors exceeded US\$40 million for the day.

and their perspective on Australia. Money cannot buy such an experience.

If you are lucky enough to be a shareholder — A class shares go for US\$219,000 but the more affordable B class are \$US146 and give you the same attendance privileges — book your flights and accommodation a year in advance and soak it all up. But don't wait too long. There won't be another event that comes close to this once the inevitable occurs.

After seven hours, as the broadcast was about to end, Mr Munger finished with a pearl — "if you see the world accurately, it's bound to be humorous because it's ridiculous". Food for thought indeed.

David Alder is a director at Alder and Partners Private Wealth Management.
www.alderandpartners.com.au

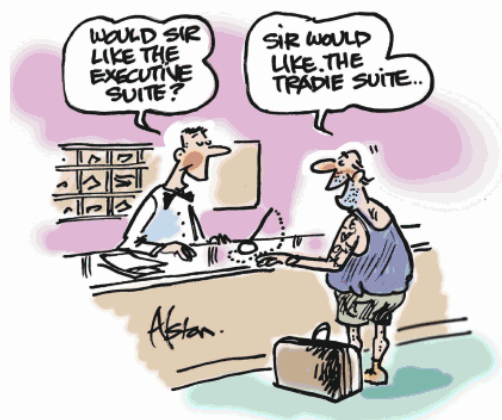


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18,000sqm of displays and products from more than 40 Berkshire subsidiaries, ranging from Heinz ketchup, manufactured homes, Coca-Cola, BNSF Railway Co., clothing, running shoes, boots, mattresses (including a pillow-top style named 'the Warren'), and confectionery.

One of the biggest attractions of making the pilgrimage to Omaha is the opportunity to network with global fund managers over the weekend. Dropping into one of the local bars and restaurants in the old market district can yield some amazing insights into how the rest of the world is investing

How overuse of word 'issue' creates an issue



OPINION ■ Zoltan Kovacs



someone had to accept responsibility. In other words, "issue" used in this way was an evasive euphemism.

He wrote that he was pleased when he found that last year's edition of Fowler's Dictionary of Modern English Usage had an entry on currently increasing uses or misuses of "issue".

He quoted from Fowler: "Vehement objections are often raised to the use of 'issue' (often in the plural) in contexts where it is probable that the word 'problem' would previously have appeared — for example: 'A small number of users are experiencing connectivity issues'."

"Whatever the reasons for this burgeoning use of 'issue', it seems unstoppable. Pessimists and purists will decry it as namby-pambyism and pedants will call it 'bad grammar'; the majority will bow to linguistic peer pressure."

Mr Stickler wrote that the slovenly misuses of "issue" and some other words could be described as language viruses that infected big sections of populations of English speakers. "Address", used as a verb, was another example of a word that carried a language virus that had infected many people, he wrote.

Anyone who said he or she would "address an issue" — an expression that appeared dismayingly often in the languages of politics and business — made no commitment to doing anything specific. The attraction of "address" to people who used it relentlessly was its vagueness.

Fowler noted that it was used by "people in the business of not really meaning what they say" and called it a stalemate of "issue", with both words being "overworked to the point of near collapse".

Mr Stickler also wrote that "executive" should be put on the SOP list as a newly emerged vogue word. It was now used habitually with senses such as posh, first-class, luxurious and so on, as in "executive suite".

It was gradually losing any precisely defined meaning, which was generally the fate of vogue words.

A reader has raised the exasperating overuse of the word "issue" as a possible topic for discussion by the Society of Pedants (WA). He made it clear that he was annoyed by the relentless and unthinking over-reliance on this seemingly all-purpose noun.

He wrote: "Everything these days seems to be an 'issue'. We have health issues, mental health issues, family issues, traffic issues, student issues, social issues, etc. Whatever happened to the words 'problem', 'factor', 'situation', 'condition' etc? I even heard someone say recently they had a leaking-roof issue."

SOP president Bill Stickler agreed wholeheartedly with the reader's argument that "issue" was grossly overused.

Indeed, he thought wryly that many people probably would describe the reader as having an "issue" issue.

By coincidence, Mr Stickler was writing a paper on contemporary vogue words when he saw the reader's email.

He decided that "issue" should be put near the top of the SOP's list of annoying vogue words. He wrote that vogue words generally started to lose popularity after several years of fashionable overuse.

However, the overuse and misuse of "issue" had persisted for 10 years or more and appeared to be increasing.

He thought the noun was correctly used to describe a topic of interest or importance but it had been given a wide range of other possible meanings. His main objection to many of the current misuses of "issue" was that they tended to blur meaning rather than to clarify it.

For example, it was often blatantly misused by people who wanted to avoid the use of the word "problem". Something described as an "issue" could be just about any undefined circumstance.

However, the more precise word "problem" conveyed the added senses of something gone wrong and of an implied need for a solution — for which