



## Pilgrimage to Warren Buffett's Omaha

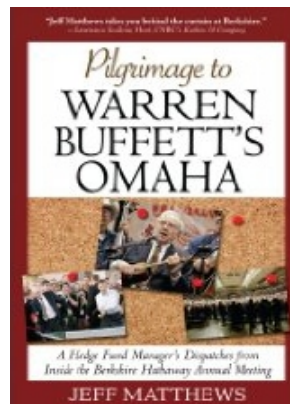
### A Hedge Fund Manager's Dispatches from Inside the Berkshire Hathaway Annual Meeting

By Jeff Matthews, McGraw-Hill Books, 2009

They come to Omaha by the tens of thousands, flocking to an annual meeting that has become legendary for investors, businesspeople, and fans of one of the savviest capitalists on the planet. They come to eat steak, buy furniture at a discount, and bask in the brilliance of value investor extraordinaire Warren Buffet.

Hedge fund founder, financial blogger, and professional skeptic Jeff Matthews got his own highly-coveted ticket to the 2007 and 2008 Berkshire Hathaway shareholders' meetings that covered the 2006 and 2007 fiscal years and held only for shareholders and their guests, and proceeded to post reports on his blog, offering tempting glimpses into the

much-discussed meeting. This well-written, easy-to-read book is an expanded version of Jeff Matthews' original essay.



#### About Jeff Matthews



**Jeff Matthews** started as an oil analyst with Merrill Lynch in 1979. He went on to found Ram Partners LP in 1994.

Ram Partners LP is a value oriented, long and short hedge fund with a focus on healthcare, consumer and technology investments.

In 2005 Matthews started writing [JeffMatthewsisNotMakingThisUp](http://jeffmatthewsisnotmakingthisup.blogspot.com/), a financial blog that was recommended by Barron's in 2006 and has been featured in the Wall Street Journal's Market Beat.

Matthews' book on the Berkshire Hathaway annual meeting, *Pilgrimage to Warren Buffett's Omaha*, was published by McGraw-Hill on October 4, 2008.

<http://jeffmatthewsisnotmakingthisup.blogspot.com/>

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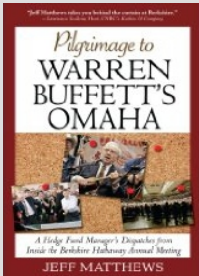
## Why You Need this Book

Matthews delivers a full-length account of his adventures at this infamous financial hoedown, and answers many questions, including:

- Does Buffett's famed penny-pinching cripple his companies?
- Why does Buffet – a bridge partner and best friend of Bill Gates – not own any technology stocks?
- How does the extremely rational Buffett square his well-known social progressiveness with his lily-white audience of investors?
- Is Buffet really an "Oracle"?
- What information, insights, and ideas do the meeting's attendees pick up, and how do they put this information to use in their own investments?
- Will Berkshire-Hathaway survive his death?

Matthews also applies his financial acumen to

 **About the Book**



**Author:** Jeff Matthews  
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harvesting potent lessons from his experiences that you can use as you survey the investment field, from finding how the world's greatest investor evaluates not only businesses but the people who run them, to the importance of "just reading and thinking" and the value of having a smart, cynical partner.

## Why Omaha?

As great as his track record is, and as wise as his pearls of wisdom are, Warren Buffett's investment philosophy does seem narrow-minded and old-fashioned. He focuses on a handful of industries he knows well – insurance, home furnishings, business services, and anything else that fits within his famed "circle of competence." And the rest he leaves alone.

Like pay phones in a wireless world, Buffett seems increasingly antiquated – even irrelevant – to more flexible, wide-ranging investors who have grown up in a highly connected, technologically independent world.

Of course, neither Buffett nor his "quality shareholders" express any remorse over missing Google or Apple or even Microsoft, outside his circle of competence as those investments are. After all, while many investors have had better years than Warren Buffett, and some may have had better decades, Buffett's track record over the long haul is, quite literally, unsurpassed.

Time does feel slower in Omaha. "I think it's a saner existence here," Buffett told L.J. Davis, writing for the New York Times, almost two decades ago:



"I used to feel, when I worked back in New York, that there were more stimuli just hitting me all the time, and if you've got the normal amount of adrenaline, you start responding to them. It may lead to crazy behavior after a while. It's much easier to think here."

### The Newspaper Generation

Almost every person sitting around, waiting for the Berkshire Hathaway annual meeting to begin, is reading a newspaper. Newspaper readers sit up more or less straight with the page in front of them, and they sit still, because it takes a few minutes to actually read each page. It is an open, relaxed, inviting, approachable kind of posture.

Blackberry readers, on the other hand, tend to be hunched over, head bowed, reading the text. They're constantly clicking or scrolling to keep the sentences coming, so they don't see much other than the little screen. It is a closed, tense, uninviting, not-very-approachable posture.

It just looks different.

It's no wonder that Warren Buffett reportedly makes it a point never to trade stocks when he's in New York City.

### The Oracle of Omaha

If there is one word that describes Warren Buffett, the "Oracle of Omaha," it is not oracular. Nor is it prophetic, divinatory, clairvoyant, extrasensory, or telepathic. While he may be known as "the Oracle of Omaha," there is in truth absolutely nothing oracular about him.

Yet it is true that in May 1969, near the peak of that era's bull market, he wrote to the investors in his partnership that "opportunities for investment... have virtually disappeared," closed his partnership, and kept only two stocks: a retailer that he later sold, and an old-line textile company named Berkshire Hathaway, which he decided to keep.

And it is true that in October 1974, after the Dow Jones Industrial Average had collapsed and with the American economy mired in gasoline shortages and price controls, Buffett made perhaps the most unequivocally bullish – and correct – utterance on the subject of investing ever recorded by any business publication when he told Forbes magazine: "Now is the time to invest and get rich."

These stories are all true. But in every case, Warren Buffett was not attempting to predict the future, nor, except for his selling before the 1987 crash, was he anticipating a short-term move in the markets in his favor.

He was, rather, being entirely rational.

### Budding Buffetts: Where to Begin

The question is, "What should I do to become a great investor?", and it is asked for the first time by an earnest 17-year old from San Francisco who says he is attending his tenth consecutive meeting.

Buffett's emphatic answer is simple and straightforward: "Read everything you can," he says with finality.

Buffett's reading habits did not stop when he was 10. He still reads literally thousands of financial statements and annual reports each



year – as he has done for each of the last 50 or more years that he’s been investing.

Of course there is more to what has made Buffett a great investor than this. But it all began by reading.

### What Now?

A shareholder from Nebraska asks a variation on one of the most frequently asked questions of the day: What now?

Each time the question is asked, Buffett makes it clear he is not sure where the world is going and what will happen now, but things are about as good as they’ll ever get. “Corporate profits as a percent of gross domestic product have increased from 4 to 6 percent to 8 percent. I think there have only been two or three years in the past 75 where corporate profits have been as high.”

He says flatly that it won’t last. “You have lots of businesses earning 20 percent on tangible equity in a world where corporate bonds are yielding 4 to 5 percent. That’s astonishing. If you read a book, it would say it’s not possible.” Buffett holds his palms wide apart to illustrate the high level of profits. “It means someone else’s share is going down,” he says, bringing his palms together. “Namely labor.”

Buffett also discusses the “extraordinary” profits now prevailing in the banks and the financial sector. “We’ve invested in and owned banks. If 20 years ago you’d asked me whether it was possible, in a world of 4.75 percent bonds, that countless banks would earn 20 percent-plus returns on tangible equity, I’d have said no. In part this is due to leverage.”

Munger, Buffett’s business partner and friend, follows with his own observation, one that will prove, in retrospect, at one unremarkable yet quite profound. “A lot of profits are not in manufacturing or retailing,” he says somberly, “but in financial sectors. There’s been a huge flow of profits to banks and investment banks. It has no precedent.”

Buffett finishes with a coda for the times: “Corporate America is living in the best of all worlds – and history has shown this is not sustainable. I would imagine that it will not be.”

### Buffet’s Last Nickel

Warren Buffett is one of the richest men who ever lived. He also may be one of the cheapest.

His license plate, THRIFTY, was famous around Omaha – too famous, in fact; he gave it away along with his 2001 Lincoln Town Car in a charity auction, owing to worries about his safety.

And with reason: for a billionaire, Warren Buffett is a very casual guy. He has no chauffeur, drives himself a mile or two between his house and his office – he comes in seven days a week – and even drives to the airport to pick up visiting reporters, friends, and dignitaries making their way to Omaha to see him.

And that fact certainly warms Warren Buffett’s heart, for Buffett did not become the world’s richest man by wasting money.

He was, as he likes to say, “wired at birth” not only to make money but to hang onto it.



## Secrets in Plain Sight

The “secrets” to Warren Buffet’s success are hidden in plain sight. He talks about his methods freely with anybody who asks. Buffett gives perhaps his best advice to a teacher at an Orlando community college who asks what she should be teaching her students about financial matters.

“The most important thing is to invest in is yourself,” he says. “Very few people get the horsepower out of their life that they just possess. Just imagine you’re 16 and I was going to give you any car you wanted – but with one catch: it’s the only car you’ll get, has to last you the rest of your life.” “How would you treat it?” Buffett asks rhetorically. “You’d read the owner’s manual five times; you’d change the oil twice as often as you do now... And I tell students they should treat their body the same way now. It pays off in an extraordinary way.”

Buffett’s own most noteworthy habits – frugality and rationality – have certainly followed him throughout his life. And they have made him, for the moment, the richest human being in the world.

## The “Yes” Won’t Change

Buffett stripped down concepts ranging from investing for beginners to nuclear proliferation to their bare essence:

**WHAT IT MEANS TO INVEST.** “What we’re doing in an investment is we’re laying out money now to get more money back in the future.”

**WHAT HE LOOKS FOR IN A BUSINESS.** “We want a business with a durable

competitive advantage, management we trust, at a price that we understand.”

**WHY HE DOESN’T HIRE AUDITORS WHEN HE BUYS A BUSINESS.** “If you think the auditors know more about making an acquisition than you do, you ought to take up accounting and let the auditors run the business.”

**ON EGREGIOUS CORPORATE COMPENSATION.** “The idea that you have to pay some guy a \$10 million retention bonus to keep him around – I don’t know of a CEO in America that wouldn’t gladly do the job at half the price or a quarter of the price.”

**HOW TO CHANGE EGREGIOUS CORPORATE COMPENSATION.** “If the half dozen largest institutions would simply withhold their votes and issue a short statement why they’re doing it, it would work. Big shots don’t like to get embarrassed.”

**WHAT A SMALL INVESTOR SHOULD DO TO START INVESTING.** “Put it all in a low-cost index fund, like Vanguard.”

**WHEN “YES” WON’T CHANGE.** “We got a call [from Mars, to finance the purchase of Wrigley] and we said ‘yes.’ I can tell people ‘yes,’ and that won’t change. The \$6.5 billion will be available whether a nuclear bomb goes off in New York City, or whether Ben Bernanke runs off with Paris Hilton.”

**WHY THE DERIVATIVES MARKET GOT OUT OF HAND.** “You had to read 750,000 pages to evaluate one security, and that was madness.”

**WHEN REGULATION FAILED.** “We had



This organization called OFHEO [Office of Federal Housing Enterprise Oversight] whose sole purpose was to oversee two companies, Fannie Mae and Freddie Mac... They had 200 people going to work at nine every morning, whose sole job was to oversee Fannie Mae and Freddie Mac, and they had two of the biggest financial scams ever, so they were two for two."

**WHY MASS TRANSIT ISN'T USED.** "The American public doesn't like mass transit. I used to be involved in bus companies, and you can make all kinds of rational arguments to people about mass transit. But one person per car seems to be an enormously popular method of moving around."

**WHY THE CHINA OLYMPICS SHOULDN'T BE BOYCOTTED.** "We didn't let women vote in the U.S. until the 1920s, and I would say that was a great human rights violation, and I would have hated to see the U.S. banned from the Olympics prior to 1920."

**WHY NUCLEAR PROLIFERATION IS STILL A THREAT.** "The genie is out of the bottle... That's the problem of mankind. You've got 6.5 billion people in the world, so there are close to twice as many people that wish ill on other people as you had when the population was 3 million."

**THE MOST IMPORTANT JOB IN LIFE.** "I tell students the most important job you have is your children. You provide warmth and food, and they're learning about the world... and you don't get any rewind button."

The Berkshire shareholder meeting is more than a pilgrimage for 31,000 investors: it's big business here in Omaha.

Will the phone at Berkshire still ring when Warren Buffett is no longer there to pick it up?

A lot of other people around Omaha certainly hope so.

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