MERCHANT WEST INVESTMENTS

THOUGHT PIECE

Berkshire Hathaway Annual Shareholders Meeting
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After COVID, work-from-home and online meetings have become the world's way. Personally, I don't like it; but sometimes it's much more convenient to log on to Teams than jump in your car and drive 30 minutes each way for a one-hour meeting.

And if you must travel 24 hours to attend a meeting, a live-streamed option becomes even more attractive. This, however, is different when considering a trip to Omaha to attend the annual Berkshire Hathaway Shareholders gathering.

The "meeting" is revelatory; 45 000 people packed into an indoor stadium to listen to two nonagenarians is a unique experience.

So why do all these people - including me - go?

Berkshire Hathaway is run by Warren Buffett (93) and Charlie Munger (99). In 1964 they took over a textile business called Berkshire Hathaway and immediately started diverting its cashflows away into other, more promising investments. Since then, the share price has compounded by 19.8% p.a. compared to the S&P 500's growth of 9.9% per annum.

To put that in perspective, one dollar invested in Berkshire in 1965 would be worth $3.8m today, vs just $25 000 if you invested in the index. Even over the past 10 years, during which Warren Buffett has repeatedly warned that their sheer size would work against high returns, they have generated 16% growth a year, matching the index. This has made them both, and many of their shareholders, extremely wealthy.

As Morgan Housel pointed out (quoting Matt Damon): "You retard socially and emotionally the moment you become famous. Your experience of the world is never the same. The same may be true – and far more common – for those who become wealthy."

Not in this case.

That these two are still around is remarkable. It is even more remarkable that they are still willing to spend 6 hours answering random questions from shareholders. But the most remarkable thing about the whole affair is how down-to-earth they are, given their wealth and achievements.

Anyone who has compounded capital at the rate they have could only have done so by applying a sound business philosophy and consistently implementing sensible processes over a very long period. And that's why we go to Omaha - to listen to these two great people explain how they have done and continue to do so.

Buffett and Munger are exemplars. By its very nature, very few such people emerge from the financial world. It's worth taking a good look at the rare occasion when a system with such perverse incentives produces outliers.

Many commentators have summarised the meeting by now, but the key takeaways for me were:

- Emotional decision-making is your biggest enemy in investing.
- Wealth compounds over time, be patient and don't do things that will take you out of the game.
- If you want to figure out how to live your life, write your obituary and spend your life living up to it.
- You need to know how people can manipulate others — and then you must resist the temptation to do it yourself.
- Buffett said: 'I've never known anyone who was basically kind who died without friends. But I've known plenty of people with money who have died without friends — including their family.
- On Artificial Intelligence - Buffett commented that many new things had come about in his investing lifetime, but their biggest investment opportunities came from human misjudgement. And even AI won't change that.

They also shared their views on politics, markets and stocks, but these were just their opinions, some of which will prove correct and others wrong, so I won't repeat them here.

During the morning session, both Buffett and Munger were on form - Buffett, as usual, came across with his unique combination of optimism and realism; Munger added his biting insights every so often. For example, when asked about his estate planning advice for Berkshire shareholders, he said "Just hold the goddamn stock." The three-hour session flew past.

In the afternoon session, it became clear that both were tiring; Munger became even more monosyllabic while Buffet started rambling a bit. Understandable and excusable given their age. By 3 pm I think they were both relieved to call a halt to the proceedings.

Again, one has to ask the question why not just stream it?

In my case, there were two reasons. The most important is that I took two of my sons to the meeting. Both are in their early twenties; the formative years of their careers. The wit and wisdom of Buffet and Munger played a huge role in my own personal and financial development, and if even a small part of that rubs off on the boys the trip would have been worth it.

Also, the meeting attracts investors from all over the world, and the networking opportunity is enormous. Our online world tends to isolate us, and travelling to Omaha is a deliberate action one can take to break out of this isolation.

On top of these, there are many other less important - but fun - reasons to attend in person. From the expo where the Berkshire associate businesses all have stalls selling or promoting their wares, to the Berkshire-owned stores in town offering super special deals and the 5km run on Sunday morning. I did manage to beat Ted Weschler in the run, a welcome reversal of our position with respect to assets under management.

And the expense? To attend the meeting itself costs nothing, all you need to be is a Berkshire Hathaway shareholder. Today, Berkshire A shares are priced at $497 000, never having been split since current management took the reins in 1965. Fortunately, you don't need to be a millionaire to attend, as there are low-voting B shares, which trade at $330 per share. These give you the same attendance (and proportional economic) right.

In fact, one could say Berkshire is actually paying you to attend the meeting - the likely probability being that their shares will be worth more tomorrow than they are today.

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