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Message from Omaha

Berkshire Hathaway is gearing up for its annual shareholder's meeting. In preparation, Warren Buffet has released his much awaited annual Shareholder Letter. This year's 20-page letter is filled with insight and the folksy touch of the 79-year old chairman who feels so lucky to work at a business he loves that he "tap-dances to the office every day." Six highlights follow.

1. Shareholder Communications

Berkshire added at least 65,000 new shareholders and Buffet went to some length to explain the company's policies for them. Buffet regards shareholders and a business like marriage. Everyone should have the same interest:

> *We make no attempt to woo Wall Street. Investors who buy and sell based upon media or analyst commentary are not for us. Instead we want partners who join us at Berkshire because they wish to make a long-term investment in a business they themselves understand and because it's one that follows policies with which they concur.*

Buffet prefers to communicate with shareholders directly:

> *To build a compatible shareholder population, we try to communicate with our owners directly and informatively. Our goal is to tell you what we would like to know if our positions were reversed.*

Berkshire even tries to release most information on Friday so investors have the weekend to digest it.

2. Risk Management

Buffet believes the CEO should bear full responsibility for risk control. He pledges, "if Berkshire ever gets in trouble, it will be my fault. It will not be because of misjudgments made by a Risk Committee or Chief Risk Officer."

Buffet takes executives and management boards to task for not managing the risk that led to the financial crisis and the downfall of many firms. Buffet calls them "derelict" and believes they deserve severe financial consequences.

> It has not been shareholders who have botched the operations of some of our country's largest financial institutions. Yet they have borne the burden, with 90% or more of the value of their holdings wiped out in most cases of failure. Collectively, they have lost more than $500 billion in just the four largest financial fiascos of the last two years. To say these owners have been "bailed-out" is to make a mockery of the term.
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> The CEOs and directors of the failed companies, however, have largely gone unscathed. Their fortunes may have been diminished by the disasters they oversaw, but they still live in grand style. It is the behavior of these CEOs and directors that needs to be changed: If their institutions and the country are harmed by their recklessness, they should pay a heavy price – one not reimbursable by the companies they've damaged nor by insurance. CEOs and, in many cases, directors have long benefitted from oversized financial carrots; some meaningful sticks now need to be part of their employment picture as well.

Part of Buffet's risk management is maintaining sufficient liquidity, stating "too-big-to-fail is not a fallback position at Berkshire. Instead, we will always arrange our affairs so that any requirements for cash we may conceivably have will be dwarfed by our own liquidity." Indeed, at the peak of the financial crisis Berkshire was a supplier of capital to the economy, pouring over $15 billion into businesses including GE and Goldman Sachs.

3. Acquisitions & Investment Bankers

Berkshire Hathaway completed its largest acquisition ever, but had to issue new shares to complete the takeover of railroad Burlington Northern Santa Fe. Buffet enjoyed issuing the new stock as much as he relishes "prepping for a colonoscopy." In this case, only 30% of the cost was paid with Berkshire stock and the deal was simply too much of an opportunity to pass up.

In general, Buffet opposes stock issuance to fund takeovers. He advises boards not to listen to investment bankers trying to put deals together. "In more than fifty years of board membership," Buffet says he has never heard investment bankers "discuss the true value of what is being given." He compares self-interested bankers to barbers and warns, "Don't ask the barber whether you need a haircut."

4. Mea Culpa (My Bad)
Almost every year, Buffet accepts responsibility for some misstep. This year was no exception. He made a "painful confession: Last year your chairman closed the book on a very expensive business fiasco entirely of his own making." The fiasco involved issuing credit cards to GEICO insurance customers. He also accepted blame for allowing Net Jets to rack up so much debt, but pointed out the airline's new CEO has restored profitability and is now reducing debt.

5. Bureaucracy & Micromanagement
Many of Berkshire's subsidiaries operate largely independently. Buffet favors this style. He concedes "we are sometimes late in spotting management problems," but says the results can't be beat:

> "Most of our managers, however, use the independence we grant them magnificently, rewarding our confidence by maintaining an owner-oriented attitude that is invaluable and too seldom found in huge organizations. We would rather suffer the visible costs of a few bad decisions than incur the many invisible costs that come from decisions made too slowly – or not at all – because of a stifling bureaucracy."

In January 2010, S&P announced that, having grown so much, Berkshire Hathaway would be added to its flagship S&P500 index. Buffet frequently returned to the topic of Berkshire's size, pointing out investment performance would necessarily slow, "huge sums forge their own anchor and our future advantage, if any, will be a small fraction of our historical edge." But he also reassured shareholders that Berkshire would continue to "operate as a collection of separately-managed medium-sized and large businesses, most of whose decision-making occurs at the operating level."

6. Annual Meeting

The Berkshire shareholder's meeting is a unique event. Buffet refers to it as "Woodstock for Capitalists" and 35,000 people attended in 2009. Products and exhibits from Berkshire companies are all on display. One of those companies is Borsheims, which offers special jewelry discounts. Buffet proudly plays the salesman, "Enter with rhinestones; leave with diamonds. My daughter tells me that the more you buy, the more you save (kids say the darnedest things)."

Q&A is scheduled to run from 9:30 to 3:30, with a break for lunch in between. 13 microphones will be available. Buffet urges shareholders to e-mail their questions to one of three journalists from Fortune, the New York Times and CNBC. Independently, each journalist will select about a dozen of the best questions. (These will not be revealed to Warren Buffet or Charlie Munger, the 86-year old Vice Chairman, in advance). In between each question from a financial journalist, shareholders who win a drawing will be able to ask questions from one of 13 separate microphones. Berkshire tried this Q&A format for the first time last year and received positive feedback. This year, the length will be extended by 30 minutes. Buffet estimates they will be able to answer about 30 questions selected by journalists and 30 questions asked directly by shareholders.

Few shareholders meetings have quite the same festival feeling. Warren Buffet will also be playing table tennis against Ariel Hsing, the ranking junior champion. Last year she defeated him at the same event and the video can be viewed on YouTube. Buffet admits nothing "is more fun for us than getting together with our shareholder-partners at Berkshire's annual meeting." How many chairmen can say that?

Related Links:

Berkshire Hathaway. **Warren Buffett's 2010 Letter to Berkshire Shareholders.** http://www.berkshirehathaway.com/letters/2009ltr.pdf

Bloomberg. **Buffett Ends Credit-Card 'Fiasco,' Sells Receivables (Update1).**
http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aDNJOCTpOcMM

Investment Week. **Warren Buffett Attacks Bankers over Risk Controls.**
http://www.investmentweek.co.uk/investment-week/news/1594040/warren-buffett-attacks-bankers-risk-controls

New York Times. **Buffett's Bargain Shopping Spree.**
http://www.nytimes.com/2010/02/28/business/economy/28buffett.html?scp=2&sq=Warren%20Buffett&st=cse

Wall Street Journal. **Sage Advice on Making an Acquisition.**
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