Interview with Warren Buffett, Bill Gates and Charlie Munger -Part 1

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STUART VARNEY, FBN ANCHOR: Let's get straight to this, nearly 40,000 people packed the city of Omaha, Nebraska this weekend for the annual Berkshire Hathaway shareholders' meeting. Liz Claman, she was there, she spent the weekend exploring what is commonly called the Woodstock of capitalism.Liz, what do you have for us today?

LIZ CLAMAN, FBN CORRESPONDENT: Oh, a lot, Stuart. We have the three, really, pivotal people at Berkshire Hathaway, although they would argue that everybody who works there is pivotal -- Warren Buffett, Charlie Munger and Bill Gates.

But what a weekend. I mean, you mentioned tens of thousands of people, these are, in essence, house guests of Warren Buffett's who arrive in Omaha for this four-day weekend and he puts on a show for them, especially considering his company has just bought an entire railroad that was valued at $44 billion. He wanted to look at choo-choos all weekend. It was quite amazing over at the Qwest Center as you looked at what was going on and everybody follows him around on the floor, he plays the ukulele, he sings. It's quite a show, but the real show is when he sits on the floor of the Qwest Center and takes questions from shareholders for hours and hours.

But, yes, you know, he has an entire group of people that are just following him like lemmings, but here is the question, what do people really think about all of the stories that are becoming so newsworthy today, including, of course, his investment in Goldman Sachs. That's where the serious talk begins. And we are joined now right here with Warren Buffett himself.

Nice to see you, thank you for being here.

WARREN BUFFETT, CHAIRMAN CEO, BERKSHIRE HATHAWAY: Hi, Liz.

CLAMAN: Get any sleep? I mean, this is the question everybody asks me, does this guy sleep over this weekend?

BUFFETT: Well, not a lot, but I have a great time. I'm feeling terrific.

CLAMAN: Feeling good.

There was a theme that was different from last year. Last year, it seemed people were in a way a little bit tentative. What do you think the feel was this year?

BUFFETT: Well, they all seem to be having a good time. I mean, it's Mardi Gras time in Omaha at the meeting. And you're right, a year ago, the American public just generally was sort of unsure of itself and the government had done a lot of things, but the question, how was it going to work and I think now people are feeling a whole lot better about that.

CLAMAN: Well, on Saturday the headline of the local people, and I have it here, the Omaha World Herald, the headline on Saturday was Woodstock of capitalism may not be a love-in this year due to real disgust with derivatives and of course the concern about the Goldman Sachs situation and the SEC charge.

Indeed, that was the first shareholder question that came out, and you unequivocally said you don't think that Goldman Sachs has done anything illegal. That said, as you watch the bankers of Goldman testify last week, did you find anything distasteful or disappointing, even though you have $5 billion invested in the company?

BUFFETT: Well, it's sort of a public spectacle. It's no fun to be grilled by a bunch of people who are trying to make you look bad. And from their standpoint if I had to defend every e-mail that's been sent at Berkshire, I don't send e-mails, but you know, with 260,000 people working at Berkshire, I'm sure that you could read a few that would be -- make you unhappy.

But the Abacus transaction, which is all that's been brought forth, I mean, basically, that's the SEC filed a complaint on it and they had a 22-page explanation of the transaction. And I have read that, I've read the response to the Wells notice by Goldman. I understand bond insurance, which this really was even though it wasn't generally described that way, I don't see anything wrong.

CLAMAN: Nothing at all?

BUFFETT: No.

CLAMAN: Well, the reputation of the company suffered --

BUFFETT: Sure, sure.

CLAMAN: You've got to admit that. There's a Harris poll that rates the reputation of the 60 most sort of visible companies, your company, Berkshire, came in number one, Goldman Sachs -- what? --about 56th I think, or 57th.

If they were to come to you and say, Warren, will you sit on our board -- they wouldn't say, to help us find our moral compass, I don't think they think they've done anything wrong, but if they asked you to take an active role in Goldman Sachs, would you say yes?

BUFFETT: No, I would say no. I've got all I can do running Berkshire. And I was on five -- I've been a director of 19 public companies over my lifetime and not too long ago I was a director of five and it just takes too much time away from Berkshire, which is my first love and by far my first love.

CLAMAN: Have they asked?

BUFFETT: No.

CLAMAN: They have not asked.

BUFFETT: They have not asked.

CLAMAN: You've always been considered this renegade. You didn't set up your business in Wall Street, you stayed here in Omaha, Nebraska. In fact, in 1986, you wrote an article in The Washington Post, where if somebody asked how to get rich in hurry you said, with one hand I would plug my nose and with the other I would point to Wall Street. Do you still feel that way?

BUFFETT: Yes, I think said, I'd hold my nose and go to Wall Street or something like that. Per point of IQ and per erg of energy, you'll make more money in Wall Street than virtually anyplace else. I mean, we have this huge capitalist system and the crumbs that fall off the table of it make people very rich that are associated with that. Doesn't make teachers rich, doesn't make nurses rich.

The capitalistic system dispenses rewards in some very peculiar ways in the market system and they don't judge us the way St. Peter is likely to judge us. And Wall Street is where lots of money pours through and you only have to take a very small portion of it. And when we borrow $8 billion in connection with our BNSF acquisition, a very small percentage of that 8 billion amounts to a lot of dollars. So you make a lot of money on Wall Street relative to your talent compared to almost any other

occupation in the country.

CLAMAN: Do you think that capitalism is under attack? There's always this discussion lately that Washington is taking over and that capitalism will be crimped?

BUFFETT: Yes, Washington -- the funny thing is wrong with Washington and funny thing is wrong with Wall Street for a lot of years and look where we are now compared to where we used to be. This system works. You know, we make mistakes. We overshoot, we overcorrect. We have our hiccups in all kinds of ways, but nobody's ever come up with anything like this. In the last couple hundred years just look where we are, so don't bet against the United States.

CLAMAN: During the meetings you played the ukulele, you get a lot of laughs, you eat the Dairy Queen, you in the past sat on steers. You have this very kind, grandfatherly image.

BUFFETT: It's great-grandfatherly now actually, Liz.

(LAUGHTER)

CLAMAN: Oh, great-grandfatherly. OK, I stand corrected.

But a couple of people I've spoken to on Wall Street say you have the sharpest elbows of them all. On the one hand, you'll say the financial derivatives have the potential to be weapons of financial mass destruction.

BUFFETT: Which they do. Which they do.

CLAMAN: Which they do. Yet, on the other, you'll make derivatives bets.

BUFFETT: Sure.

CLAMAN: And I talked to one very successful hedge-fund guy who said, we don't call it Berkshire Hathaway, we call it Berkshire Hypocrite. What do you think of that?

BUFFETT: I think he's wrong. I mean, I can say socially that derivatives have the potential for being financial weapons of mass destruction and they've proven it, but they exist for securities and if they're mispriced we buy, I have no problem with that at all.

CLAMAN: Let's get to investments. You don't travel that much, but you're going to rack up some miles. You said this weekend that you will be taking a trip to Japan and then next year you'll go to India.

BUFFETT: Actually, it's Japan and India next year --

CLAMAN: OK.

BUFFETT: -- and then China in -- in -- in late September.

CLAMAN: Late September. Do you want to buy Japanese and Indian companies?

BUFFETT: I want to buy good companies anyplace they are, if they have good management I can understand them and the price is right. I'd love to buy a company in Japan, India or China you name it, or Omaha, Nebraska.

We're looking for opportunities all the time and there are bound to be some that exist outside this country we don't hear about them as often if they're outside of this country, but I hope we do.

CLAMAN: You need cash to buy businesses.

BUFFETT: You bet.

CLAMAN: You took a big chunk of cash to buy Burlington Northern. What is Berkshire's cash position right now?

BUFFETT: The cash position would be not counting the cash at Burlington or energy companies, the cash would be around $22 billion.

CLAMAN: Are you holding back maybe by buying certain things because there is this unknown and that would be how financial regulatory reform looks. I mean, if they make it very tough for derivatives and they do go back to existing contracts, you'd need a big chunk of billions in cash to cover that collateral.

BUFFETT: We might -- it depends on what's required as collateral. We can put up our Coca-Cola stock, for example, or something. So we have tons of collateral and it would not change my thirst for acquisitions or my willingness or anything of that sort.

CLAMAN: So you're not waiting to see what financial regulatory reform looks like?

BUFFETT: No, I hope my phone rings as soon as I go back to the office and I'm ready.

CLAMAN: You're ready to buy anything because there are people say, well, how can we conduct business we don't know what the government is going to do.

BUFFETT: Well, you never know what they're going to do and we'll -- we've managed to adjust to all kinds of regulations and laws over the years and most of them we think are pretty good. So, that, I'm not sitting around worrying what Washington is going to do in terms of running Berkshire Hathaway.

CLAMAN: Back when Fox Business launched in late 2007, you said you were taking a position in the Brazilian real, yet at least two times this weekend you said, I'm not doing any currencies right now because so many countries due to the financial crisis took on so much debt and therefore, you feel there's some risk there. Would that mean, Warren, that you're go into hard assets. You don't strike me as a gold bug.

BUFFETT: No, I'm not a gold bug. But what I'm saying about currencies is that, I can't really make, I don't think I've got the edge in making any prediction about whether the euro will appreciate, versus the pound or versus, now, I think all currencies and virtually all currencies over time will buy less, but I don't know the rate of decline of one versus another. So, and the only way you can bet on currencies is one currency versus another and I have no views on that at the present.

CLAMAN: Well, this focus is obviously on Europe and what's happening in Greece and it's very disconcerting that Greece's debt was downgraded and same with Portugal and Spain as well. This is worrisome for a lot of people who figure Italy might be next. Do you see it that way?

BUFFETT: Liz, I don't know how that movie ends. You have a new situation when you have a sovereign government that's-- whose currency is tied to something that is sort of pooled, you might say and the sovereign government makes its decision on its own budget, but can't print its own currency.

CLAMAN: They can't print drachma.

BUFFET: No, and it used to be able to, but no longer. That's untested and you have a great worry about moral hazard, if one country lives big and then they expect other people to pay their bills, why shouldn't another country. So, it's-- I don't know how this one comes out.

CLAMAN: Well, this brings us to the credit ratings agency who did take the step to downgrade some of these countries' foreign debt. There is concern and they have even warned, hey, we've considered downgrading U.S. credit.

BUFFETT: They'd be out of their minds if they did. The United States, all of our debt is in our own currency. When you can print your own currency, you don't default. The problem with Greece, they can't print their own currency and that's the problem with various other countries.

If you go back to Lloyd 1997, 1998, even a country that's as strong as Korea has debt in U.S. dollars. Korea couldn't print U.S. dollars. We can print U.S. dollars. You have to worry about the purchasing power of the dollar in the future. If you buy bonds in the United States, you will probably get paid back in something that won't buy as many groceries as the money you gave up originally.

CLAMAN: You don't worry that we're printing too much money, issuing too much liquidity?

BUFFETT: Well, I worry about-- we followed the proper course of action when the world virtually stopped in the fall of 2008. That only, only the United States government could have stepped in to leverage up to offset the deleveraging going up in the rest of the economy so we applied the right medicine basically. We applied massive dosages of it. We couldn't keep doing that without having other

consequences, it's the right thing to do then. It's the right thing to end at some point and ending it is harder than starting it.

CLAMAN: Well, obviously, yes. But the credit agencies were certainly wrong when they were rating certain things and you of course still have a stake in Moody's. You've defended Moody's this weekend, but yet you've sold some of their shares, at some point will you divest entirely of Moody's?

BUFFETT: Just depends on prices and alternative opportunities. I mean, every day we have a portfolio, we don't move a lot and we don't move frequently, but sometimes we sell stocks and buy other stocks or businesses.

CLAMAN: I'd like to ask you if any of your board members ever said, get rid of these credit ratings agencies, especially Moody's, they got it all wrong, but you know, we actually have a board member here from Berkshire Hathaway, here comes Bill Gates. We're joined by Bill, nice to see you, thank you for being here with us. Well, did you ever get concerned about Moody's?

BILL GATES: Well, I think everybody's following the whole credit rating thing and talking about different reforms in terms of how those incentives work, but I certainly never told Warren what Berkshire should do one way or the other.

CLAMAN: Well, see, that's the thing, do you ever tell him what you think when it comes to at least some of the stock portfolio? Because you strike me as a very independent thinker and an entrepreneurial guy. Everybody knows what you've done in your past. But don't you think that it's the right of the board members to be able to say, Warren, why are you buying Conoco Phillips when oil is $147 a barrel?

BUFFETT: I wish he had.

GATES: Well, I get to talk to Warren a lot about businesses and what things are doing well and we often talk about the companies in the portfolio so there's a lot of open discussion. We have asked Warren as the CEO to make those decisions and so far so good.

CLAMAN: So he doesn't just ignore you?

GATES: No, not at all.

BUFFETT: No, I help him out developing software, but--

CLAMAN: Yes, I don't think so. I know you wouldn't have done this because Warren actually got his idea to invest in the railroads from you. You were one of the original guys who was thinking let me put into railroads, but would you have said to him, if you felt this way, this is a lot of money to spend on Burlington Northern. It's a capital intensive business and I don't think you should do it? Had you thought that, would you have had the courage to say that to him or figure he's not going to listen to me?

GATES: Well, there was a lot of good discussion about Burlington, its prospects as the U.S. does well, some of the issues about it's partly an irregulated business. The fact that it requires capital is, if it's getting reasonable returns, that's actually not, not a bad thing at this stage because Berkshire's generating a lot of capital and some of the businesses, all of their incredible businesses, additional capital would have very low returns.

And so even though this one doesn't have mind-blowing, 20 percent returns, it's nice to have one that typically will have good returns. So there was a good discussion and Warren decided to look hard at Burlington and Warren, in the end, that's a big decision that he made, but I felt like he made sure that if we have any thoughts, he could put that into the equation.

BUFFETT: Bill - I mean, he was only about five years ahead of me, and figured--actually if I can stay five years behind him, I'll be doing pretty well.

CLAMAN: Has any of your board members ever flat-out said don't do this.

BUFFETT: Yes, I mean, not on Burlington.

CLAMAN: Not Burlington, but other issues.

BUFFETT: Yes.

CLAMAN: And do you go ahead and do it anyway?

BUFFETT: No, I listen to them. I might go ahead and I might not. Both things have occurred.

CLAMAN: So what impresses you the most about the way Warren Buffett thinks?

GATES: Well, he has a frame work for looking into business and the profit stream that's going to come out of it and the dynamics of competitors and policies that allows him to make very quick and very sound judgments. And you know, it's a lifetime of doing that, you know, in a rare case where it doesn't work out. He thinks, OK, what did I miss? So that model keeps getting better and better and no one is as fanatical or as talented.

CLAMAN: He and Charlie this weekend were kind of ripping people, not with high IQ's, but saying just because somebody has a super high IQ doesn't necessarily mean they're not going to blow it at some point.

BUFFETT: Liz, in my job, you don't need 150 IQ. I mean, if you've got, got 150 IQ, sell 30 points to somebody else, because you just don't need it. I would not have gone into a job where I need add high IQ.

CLAMAN: Well, you brought up a long-term capital management example.

BUFFETT: That was -

CLAMAN: Of course, that was the hedge fund that blew up in 1998 due to a very bad ruble bet, Russian ruble bet.

BUFFETT: That was a - they had a whole bunch of conversions bets that all started correlating together and then they had extreme leverage and -

CLAMAN: They were smart guys.

BUFFETT: They were very smart guys. And I know some of them. They're decent guys and they had their own money at risk. But -

CLAMAN: Well, what does that tell you?

BUFFETT: It tells you that a firm of 200 people, with enough leverage and enough inner connectedness in the financial world could cause a situation where the Federal Reserve and -- was worried about what their failure would do to the system, which is pretty amazing when you think about it.

CLAMAN: Bill, you're obviously a technical guy. Warren is not. I mean I remember you and I were talking -

BUFFETT: Well, I never said that.

CLAMAN: And you said, I've - it was a couple of years ago, you said, I've just recently taught him how to click on the blue e for Internet Explorer. How do you get him to understand your world?

GATES: Well, Warren knows what he needs to know, which is technology is making information available. It's both good for companies to get things done and lets them compete more vigorously. And so, you know, if you go through the Berkshire businesses, they're all, you know, iscar (ph) using new technology very effectively.

CLAMAN: Technology.

GATES: Even something like Burlington, the railroad story, really is a story of scheduling the equipment in a rational way. And so over the last 20 years, it's gone from a business that didn't use its capital very well, to one that uses it better and is taking share in many cases away from trucking because of that.

CLAMAN: But, you know, looking at technology, it's not one of these fly by night sectors any more, Bill. I mean this is not nanotechnology where it's in its early stages or something brave new world. Have you ever brought Warren a tech company and said, you really ought to look at this to consider buying it?

GATES: No, I've never done that. Whether it's Microsoft or any other, because tech companies, by their very nature, live on the break throughs that five years down the road, there will be another breakthrough that changes the rule. And five years later, there will be another breakthrough.

Now, that's a fun ride, but in terms of being able to say, is this where capital should go for 20 years, I think that risk of technical change is not what Warren feels is his game. And he's got a game where he's better at it.

There's one person who has got Warren to buy a tech company, and that's Charlie. I don't get that distinction.

CLAMAN: We'll be speaking with Charlie -

BUFFETT: Keep trying. Keep trying.

CLAMAN: Well, a couple of years ago you got a Kindle. Have you looked at the iPad, Warren?

BUFFETT: No.

CLAMAN: You - oh, that's going to make (INAUDIBLE) -

BLUFFETT: No. I will be the last guy in the world with a land line phone reading a daily newspaper. And they're going to - you're going to come out and interview me some day and you're going to say, here is the last man on the planet.

CLAMAN: The last one. Well, Bill, you guys just shelved your plans for a tablet over at Microsoft. Was that a concession in a way to say, geez, we - - the iPad came out swinging here. It had huge sales?

GATES: No, no, no. The tablet is a device where you have input. You can take notes and write. And Microsoft has a lot of different tablet projects that we're pursuing. We think that work with the pen that Microsoft pioneered will become a mainstream for students. It can give you a device that you can not only read, but also create documents at the same time.

CLAMAN: So -

BUFFETT: That's the one I'll use.

CLAMAN: Because it has a pen.

BUFFETT: Yes.

CLAMAN: It's a lot easier for you.

BUFFETT: Yes.

CLAMAN: You look at a company like Apple right now, its market cap, and I know, Bill, you might argue with this because of the way they actually count the shares, but it's bigger than a company like Berkshire. It's now counted bigger than Microsoft. Maybe bigger than everything except Exxon Mobil. What does that say to

you about how intelligently or not the market is valuing companies?

BUFFETT: I think what it's saying is, Steve Jobs has done a terrific job. And there will be companies that excel. And occasionally they will excel because of luck, but usually they excel because of brains.

CLAMAN: Bill?

GATES: Yes, I think both in general and in the specific, Apple's done a great job.

CLAMAN: Got to get to the succession plan because this is something that every shareholder brings up every year, and we talk to you guys about it as well, the list. It's sort of bifurcated. You've got the CEO list and then you've got the list of the chief investment officers. What does it say, Bill, that it's going to take at least two, maybe even three people to fill the place that has been taken by one Warren Buffett?

GATES: Well, no set of people will ever fill the place taken by Warren Buffett. And so, fortunately, Warren's super healthy and the attempt to, in an inferior way, do what he does today, is far off in the future. But, yes, in attempting to do that, we will use more than one person.

CLAMAN: You're super healthy?

BUFFETT: I am super healthy. I don't know why, but I am. I have no muscles. I have no coordination, but I am healthy.

CLAMAN: Can I just say, you ate how many pounds of peanut brittle this weekend? How do you -- peanut brittle, Cherry Coke.

BUFFETT: I always quit at 4,000 calories.

CLAMAN: But this is a -- this is a serious issue, Bill, because people say, well, the board knows who these names are. But are new names, Warren, be added to the list at this point?

BUFFETT: There certainly could - there could be. But these are very good people. And as long as - I mean, these are people with us and they're fairly young.

CLAMAN: These are for the CEO.

BUFFETT: For the CEO, yes.

CLAMAN: Right. Right.

BUFFETT: And, you know, we're blessed right now. And that wasn't the case 30 years ago, but we've acquired companies, we've acquired talented managers in connection with those acquisitions. A few have come up through the ranks, too. So, we're all set. The real question is if I don't get hit by a truck.

CLAMAN: God forbid. But we've heard the Dave Sokols of the world named and the Age Chains (ph). Matthew Rose of Burlington Northern. He's a man who has run a very large company, done very well at that. Would he be added to the list?

BUFFETT: He a terrific manager and we obviously look at all of our terrific managers. And bear in mind, I won't be there when the decision is made, although I know today what it would be if I died tonight. I mean and five years from now, who knows, you know, who will be on that list. But the board, the next morning -- if I died tonight, there would be somebody in place within 24 hours and we know who it is and they're - you know, we're all set to go.

CLAMAN: And what would shareholders be told?

BUFFETT: Well -

CLAMAN: Do you have a letter waiting to go out to shareholders?

BUFFETT: No, I - well, actually, I used to have a letter, but my secretary thought it was a little too morbid.

CLAMAN: Why?

BUFFETT: Well, because it started out yesterday I died. And it said, that's bad news for me, but it's not bad news for you because we've got an even better guy here to run the place.

CLAMAN: Bill, for the chief investment officer position and list. Of course, these might be people from outside Berkshire Hathaway. But what do you think is necessary here? You don't want some cowboy in there who's leveraging up, right?

GATES: No, that's right. Berkshire has a philosophy of how investing is done. Fortunately, that position in many ways is less urgent than the CEO position. And so something will get figured out. You know, it could be a financial area because we're expecting it will be a long time from now where the capital structure might say, you know, you would choose to pay dividends then. But, you know, this is far, far out and that's not even the most urgent part of it.

BUFFETT: And, Liz, it should be pointed out. Bill has a very successful investment record outside of Microsoft. I mean he's worked with investment managers. He understands it. It's something he's thought about plenty. And that's true of other members of the board, too. So these are - we've got a group of people who know how to think intelligently in terms of selecting investment managers.

CLAMAN: Well, I'm sure they're all terrific, but can they gather a crowd of 37,000 people to come to Omaha to listen to them speak?

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