



**BERKSHIRE HATHAWAY'S  
ANNUAL MEETING**

**2018**

**Key Takeaways**

**ZVEST**

# BERKSHIRE HATHAWAY

Q1 EARNINGS

NET LOSS

**\$1.1B**

OPERATING PROFIT

**\$5.3B**



Billionaire Warren Buffett's Berkshire Hathaway Inc. reported a loss in the first quarter due to –

An accounting rule change on unrealized investment losses which requires Berkshire to report unrealized gains or losses in equity investments in net income

SOURCE – Yahoo Finance & Nasdaq



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# Berkshire Hathaway Inc.

## First Quarter After-Tax Earnings (in millions)

	<u>2018</u>	<u>2017</u>
Insurance – underwriting	\$ 407	\$ (267)
Insurance – investment income	<u>1,012</u>	<u>908</u>
Total insurance	1,419	641
Railroad, utilities and energy	1,730	1,318
Manufacturing, service & retailing	1,822	1,317
Finance	374	291
Other	<u>(57)</u>	<u>(11)</u>
<b>Operating earnings</b>	5,288	3,556
Investment and derivative gains/losses	<u>(6,426)</u>	<u>504</u>
<b>Net earnings</b>	<u>\$(1,138)</u>	<u>\$4,060</u>
<b>Float as of March 31 (in \$ billions)</b>	<u>\$ 116</u>	<u>\$ 105</u>

# Berkshire Hathaway Inc. Class A

NYSE: BRK.A

**2,95,600.00** USD **+3,000.00 (1.03%)** ↑

7 May, 4:00 PM GMT-4 · Disclaimer

1 day

5 days

1 month

1 year

5 years

**Max**



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# On U.S. & China Tensions

- U.S. & China will remain two superpowers
- In 1970's, imports and exports were 5% of GDP but now exports are 11+% of GDP and imports are 14+% of GDP.
- Mr. Buffett also said he believes the two nations have a lot of common interests, the countries have a lot to gain by working together.



# On Gender Equality

- Mr. Buffett said that there's little turnover among Berkshire managers
- About half of the new CEOs appointed in the past five or six years have been women.

# On Deal Making Environment

- Warren Buffett and Charles Munger are not optimistic about the deal making environment.
- Having more than \$100 billion in cash and treasury bills that they could put to work, both have expressed dismay regarding the well-priced deals.
- He also implied that Berkshire may even look globally for some acquisitions.



# On Generating Returns

- Ted Weschler and Todd Combs, the two investing deputies, are generating returns that are just slightly ahead of the S&P 500.
- That just really underscores the struggle that value investors are facing this environment.

# On Real Estate Commissions

- We are 3% of all transactions in US in earning \$200 million a year in real estate commissions.
- Average price in most operations is \$250000 per house.



# On GEICO

- The Oracle of Omaha described GEICO as one of its best insurance businesses, saying that “GEICO is a jewel. It's an incredible company. It's saving its customers probably \$4 [billion] to \$5 billion a year against what they would be paying otherwise.”
- GEICO contributed \$2 billion to float last year.
- GEICO has grown from 8000 employees to 35000 and increased its productivity.





# On Tax Bill Benefits Being Passed To End Customers

- Tax rate change was good for shareholders generally, and that's what Congress passed.
- The intent had to be that if they cut taxes, shareholders would get a large portion of it.

## On Cryptocurrency

- According to the pair these assets won't deliver anything other than supposed scarcity.
- All this is counting on someone else later on trying to buy a non-productive asset so that they can sell it for a higher price.



# On Bonds

- Long term bonds are terrible investments at current rates.
- Long term bonds are taxed, so they are a 2.5% net return.
- Warren “1942 war bond cost \$18.75 and paid out to \$25 in 10 years-that’s a 2.9% return compounded. That’s not a good investment.
- Since World War II T-bonds were attractive only in early 1980s when they briefly offered a 30 year compounded 14% return.



# On Cyber Security Risks

- “\$400 billion event has a roughly 2% probability per year of happening. Cyber is uncharted territory and it’s going to get worse not better.”



# On Elon Musk

- There was a bit of a pushback on Elon Musk's comments that a "moat" or aspects of a business that makes it harder for new entrants to jump in is "lame."
- Buffett did acknowledge that in some areas it seems as though moats are under invasion, but that there are still businesses with good competitive edges.



# On Berkshire's Goodwill

- Buffett said that Berkshire is in a better position than any other insurer when it comes to digesting large insurance losses, making it a go-to place for large and complex risks.
- This was proven true last year when Berkshire signed a \$10.2 billion reinsurance deal with AIG.
- Buffett called that policy "a world's record and one we won't come close to repeating" in his most recent letter to shareholders.



# On Companies Turning To Berkshire During Their Financial Crisis

- During the 2008 financial crisis and thereafter, companies including Goldman Sachs, Bank of America, and even Harley-Davidson turned to Buffett to get access to cash and credibility at a time when they needed it most.
- Buffett said that he thinks of this as an advantage that rests with Berkshire, not his own personal brand, saying that, "*I think the reputation of Berkshire being a good home for companies, I don't think that's dependent on me and Charlie.*"



# On Newspapers

- His newspapers businesses, which have been under pressure and had to cut jobs, are still facing headwinds.
- Buffett said that only a few publications have figured out a viable media strategy and that he's still seeking out ways for his BH Media Group.

# On JP Morgan & Amazon

- Buffett's expecting that the health care venture between Berkshire, JPMorgan and Amazon will choose a new CEO soon.



# On Wells Fargo

- He still stood behind Wells Fargo, saying he supports Tim Sloan and expects that the company will recover, despite what's been a tough year for the bank.





# On Whether The Shareholder's Should Expect Dividends

- Berkshire ended the first quarter with \$108.6 billion in cash.
- Buffett prefers to keep \$20 billion in cash around as a "rainy day fund" for insurance losses, implying that his company had about \$88.6 billion of excess cash it could use for acquisitions, stock buybacks, or dividends.
- When asked at the annual meeting whether Berkshire had any plans to start distributing cash to shareholders, Buffett said that if it were to happen, he would prefer stock buybacks to dividends.
- Buffett doesn't expect that cash will sit around forever, adding that "we won't always be in a world of low interest rates or high private-market prices" for businesses.





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