

Letter to Clients

MacMillan Keeping Wealth Management

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Somebody once said that in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you. You think about it; it's true. If you hire somebody without integrity, you really want them to be dumb and lazy.

Warren Buffett

Old Dogs and New Tricks

Regular readers of this monthly missive are well accustomed to my frequent mention of Warren Buffett. Whether it is his clever one liners, the annual report he writes for Berkshire Hathaway, or the question and answer period of their annual general meeting, the wisdom he provides is an education unto itself.

Last year I had the pleasure of travelling to Omaha, Nebraska for the Berkshire Hathaway annual meeting and, along with more than 40,000 others, experienced it in person. Often called the "Woodstock for Capitalists", the Berkshire annual meeting is quite an affair.

They say that "you can't teach an old dog new tricks" but that doesn't appear to apply to Warren Buffett, Chairman and Charlie Munger, Vice-Chairman. Breaking with their 50-year tradition of not filming their annual meeting, Mr. Buffett made arrangements with Yahoo! Finance to stream the 2016 meeting live over the internet. I had the pleasure of taking in the entire question and answer session (five hours and more than 80 questions) from the comfort of my living room on Saturday, April 30.

For the purpose of this letter, I have gathered together the bits I think you will find most interesting and conclude with some of the particularly snappy quotes.



Still the Sharpest Knife in the Drawer

As Buffett (age 85) mused in his written text to the 2015 Berkshire annual report (released in 2016), some people will want to check in and make sure that he and Charlie Munger (age 92) have not slipped "off to La La Land." Any doubts that their advanced ages have compromised their ability to manage Berkshire were put to rest early in the meeting. When discussing Coca Cola's business, Buffett noted that the company sold roughly 1.9 billion servings a day, then quickly worked out that it amounted to 693.5 billion servings a year in his head. He then capped this off with a joke that his math was off since 2016 is a leap year. Buffett and Munger maintained the same level of energy, enthusiasm and sharpness throughout the meeting. That is no small accomplishment for anyone of any age, but certainly impressive for men of their ages.

The Importance of Incentives

Buffett and Munger have spoken widely about the power of financial and other incentives in business. The many actions that lead to the Financial Crisis of 2008 and 2009 are replete with examples of the effects of bad incentives. Munger has often said "Show me the incentive and I will show you the outcome." They believe that goals should be "tailored to the economics" of the business, be simple and measureable and "directly related to the daily activities of the plan participants." Buffett spent some time explaining how the incentive program at GEICO is structured in a straightforward manner and is aligned to stakeholders and shareholders alike. This is just one example of an effective system put in place that will benefit the company long after Buffett and Munger are gone. It is also highlighted how incentives at some other companies, not the

least of which is executive compensation, don't work for the benefit of the company over the long term.

Knowing One's Limits

Buffett and Munger outlined their belief that wisdom stems from knowing the extent and limitations of our own knowledge. "It's important to know what you can't do. We try to take swings in our own strike zone. It doesn't take a genius to do it. But we've generally managed to avoid self-destructive behavior."

Coca Cola, Sugary Drinks and Obesity

Buffett's love of Coca Cola (which Berkshire owns roughly 10% of) is well known to his followers. This meeting was no different, as he started off the meeting by opening a Cherry Coke and continued to drink them over the course of the day. A question regarding Coca Cola came up as the soft drink giant has taken much criticism from nutrition advocates concerned about the health impact of sugary drinks and links to obesity. Some have drawn parallels between soft drink and tobacco companies.

While the person who asked the question asked that Buffett not relate his own personal experience with Coke consumption, Buffett did anyway. "I'm about one quarter Coca Cola," he said. "I elect to get my 2,600 or 2,700 calories a day from things that make me feel good when I eat them. That's my sole test," he said. As part of defending the Coca Cola position, he said it seemed "spurious" to argue that calories from Coke alone were a significant factor in obesity levels. Buffett said that many people confuse the problems of eating too much sugar with

getting too many calories in general. He said he would like to have had a twin brother that ate nothing but broccoli and water, in the same caloric amounts as he drinks Coke, and see how healthy that twin was. "There's no evidence that I will any better reach 100 if I had lived on broccoli and water," says Buffett.

In his usual fashion, Charlie Munger had a shorter and sharper answer. "We ought to have a law... where these people shouldn't be allowed to cite the defects without citing the advantage. It's immature and stupid."

Some of the Best Quotes of the Meeting

"Micro-economics is what we do and macro-economics is what we put up with," explained Munger.

"A lot of problems are caused by envy. You want to figure out what makes sense and follow your own course," said Buffett.

"Monopoly and bureaucracy have pernicious effects everywhere, and higher education isn't exempt from it," said Munger.

"A full wallet is like a full bladder. You may get the urge to pee it away," said Buffett.

"If I owned a bunch of department stores and shopping malls I would be thinking very hard about what they will look like 10 years from now," said Buffett when explaining the internet's effect on business and Amazon in particular.

"What you've got to do is be aversive to the standard stupidities. If you just keep those out, you don't have to be smart," said Munger.

"You don't need to have a high IQ in the investment business, but you do need emotional control," said Buffett.

Listening to the Wise with Clever Technology

While streaming the meeting live over the internet is a "new trick" for Mr. Buffett, as noted at the outset of this letter, it struck me as to how much technology has changed in such a short time. It is easy to take technology for granted and lose sight of how impressive it really is. It still amazes me that I was able to see and hear two of the best minds in business live, and for free, from Omaha, Nebraska over the internet using my iPhone and television. If the invention of the printing press was an important historical milestone for the expansion of human knowledge, the future looks very bright with the technology we have now. The catch, I think, is to tune in to real wisdom and insight rather than the hype, noise, and nonsense that are so prolific today. The Berkshire Hathaway annual general meeting is certainly a great source for the former.

Sincerely,

Rod MacMillan

