Previous Page

5 Crucial Investing Lessons From Omaha

http://www.fool.com/investing/general/2012/05/08/5-crucial-investing-lessons-from-omaha.aspx

Jason Moser
May 8, 2012

Click here to follow Jason on Twitter.

Over the weekend I had the good fortune to park it in the press box at the **Berkshire Hathaway** (NYSE: BRK-A _) (NYSE: BRK-B _) annual meeting in Omaha, Neb. Seeing as I own shares personally as well as in my Motley portfolio here at Fool HQ, here are five takeaways that make me believe Berkshire Hathaway will be able to stand the test of time.

1. On CEOs and risk
The CEO must also be the leading risk officer. Today Buffett is the leading risk officer for Berkshire and his successor will have the same responsibility; this is non-negotiable. Buffett's reference to the big insurance operations within Berkshire and to the importance of being able to understand the risks involved with these particular businesses leads one to believe that his successor will be a leader from the insurance division; Ajit Jain with Berkshire Re. comes to mind immediately.

Takeaway: The buck has to stop somewhere, and with Berkshire this somewhere is and will continue to be with the CEO of the company even after Buffett steps down. Look for companies with leaders ready to take responsibility in good times and in bad.

2. On health
"I feel great. I love what I do. I work with people I love."
--Warren Buffett

He isn't taking his prostate cancer diagnosis lightly. But by the same token he said, "In all seriousness, it's a non-event." The medical center is right down the street from his office and he is confident he is in good hands. Sidekick Charlie Munger even cracked the joke that he resents all the sympathy and attention Warren is getting, saying he probably has more prostate cancer than Warren does.

Takeaway: Buffet's taking this as seriously as he feels he needs to. The fact is that when prostate cancer is diagnosed early (as in Buffett's case), the patient's chances of recovery are ostensibly 100%. Attitude is everything with something like this, and Warren's optimism is simply contagious.

3. On gold
Say you own an ounce of gold today. You hold it, love it, caress it, and take care of it. In 100 years you'll still own an ounce of gold. Now say you own 100 acres of farmland today. You love it and take care of it, and in 100 years you'll still own 100 acres of farmland. *However*, you'll also have had the time to produce crops to buy more stuff to produce more crops and buy more farmland and whatever else you want. The point is that there's a tremendous cycle of production here, whereas gold is more or less an

unproductive asset.

Takeaway: There is no right or wrong answer where gold is concerned, but we know where Buffett and Munger stand. Productive assets are where it's at for them, and I agree wholeheartedly.

4. On what investments we should avoid today
Buffett stated that it's not just about avoiding the businesses you don't understand; on some level you can learn about and understand virtually anything. The key is to avoid the businesses where you don't have a reasonable understanding in regard to earnings power and competitive advantage over the next decade and beyond. It's why they chose not to invest in powerhouses like **Apple** (Nasdaq: AAPL) and **Google** (Nasdaq: GOOG) , for example (which have both throttled the market over the last decade). Buffett and Munger didn't question the formidability of these businesses. But they just couldn't say with any confidence what the competitive landscape was going to look like at any given time in the future, so they passed.

Takeaway: It's OK to take a pass on something that is outside your scope of understanding. It's one thing to know that a business looks great today. It's another to know with any confidence where it may stand a decade from now.

5. On tax rates and growth
Are taxes really the problem? What is the ideal corporate tax rate? Well, in Buffett's eyes, corporate profits are not the problem. Neither are corporate tax rates. Corporate rates used to be much higher and the economy still performed. And Berkshire (along with others) is spending where they see opportunity. However, and I'll quote directly from the man himself, "Medical costs are the tapeworm of American industry." As it stands, we are at a huge cost disadvantage to the rest of the world in regard to our health care system -- and it may not be getting any better anytime soon.

Takeaway: Health care is so polarizing that I am doubtful we will get anything meaningful accomplished anytime soon. Until we do, the health care issue will continue to play front and center as a major deterrent of growth in our economy -- particularly for small businesses.

I was a Berkshire Hathaway annual meeting virgin
This was my first visit to Omaha and I came away fully satisfied. If I never go back I'll know that I was able to sit and listen at least once to two investors I greatly admire. The beautiful thing about investing is that we can do it for pretty much all of our lives, as long as we have the faculties to do it. And Warren and Charlie are living proof that this is true. Thanks, guys; it was a real pleasure.

Previous Page