Reflections on the April 2000 Berkshire Hathaway Annual Meeting Volume 2

Top Ten Holdings (March 31, 2000)	
Berkshire Hathaway	**11%**
United Asset Management	6%
Ambac	6%
EW Scripps	6%
Washington Post	6%
Aflac	6%
Household International	5%
Progressive	5%
Interpublic	5%
Gillette	4%
Total **(does not sum due to rounding)**	**62%**

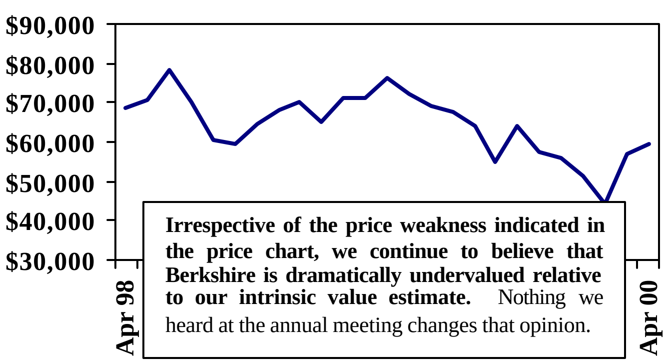
Industry	Diversified/Insurance
Ticker	BRKa/BRKb
Home Page	See www.berkshirehathaway.com

For additional information, we direct you to (hit your browser's "Back" button to return here):

Yahoo Quote	http://finance.yahoo.com/q?s=BRKa&d=t
Yahoo Chart	http://finance.yahoo.com/q?s=BRKa&d=5ys

Note: Links and website references are provided only for your convenience. The inclusion of these links/references should not be viewed as a recommendation, endorsement or approval by us of the web sites or their content.

Berkshire Hathaway(Cl A) Monthly Share Price



Source of Price Data: Yahoo

Introduction and Context

- **We are presenting information, opinions, interpretation, and conclusions gathered from our recent visit to the meeting in a series of "research notes", of which this is the second.** We thought it would be useful and interesting to share some thoughts and ideas associated with this visit with our clients, shareholders, prospective clients and other parties in the hope of communicating a greater understanding of the rational, research-based investing that we practice.

Tech Stocks and the Internet

- A skeptical shareholder took Mr. Buffett to task on the issue of "not understanding" tech stocks, citing Buffett's well-known intellect and his personal friendships with tech-company luminaries. **Buffett responded that it wasn't that he didn't understand the products or the businesses, but that if he can not see the long term (10-20 years) economic situation clearly, he isn't interested in committing capital.**

- **First, Buffett indicated that lack of ownership of technology shares by Berkshire was based not on some "religious conviction" against tech stocks, but reflected a conservative approach.** Buffett is unique both in situation and temperament to feel neither pressure nor remorse about the opportunity cost that a conservative stance may create.

- In Buffett's and Munger's view, because by its very nature the internet lowers competitive advantages enjoyed by all businesses, it will very likely on balance drive down returns to shareholders via the increased competition and "democratization" of business. **We found this entire discussion to be an amazingly lucid, cogent argument about the implications of information and technology from people who ostensibly "don't understand" technology.**

- In contrast with the prevailing euphoria over a new world order, Buffett and Munger alike seem relatively resigned to the fact that the heightened competition fostered by the internet will have deleterious effects on capitalists. **Importantly we think, neither indicated a willingness to cease doing business because of this certainty; we suspect that they must find the odds of owning businesses in a more competitive environment better than the alternative of not doing so.**

- The discourse at the annual meeting indicates that Buffett is thinking about all kinds of developments and their potential as investments or their impact on other industries and investments. **To expect someone with his nearly single-minded interest in all things commercial not to do so would be to sell the man terribly short.**

Introduction and Context

Q What can you share with us that might be interesting or different from conventional analysis about what you heard at the Berkshire meeting?

A We have attempted to synthesize a number of relevant issues we gleaned in the course of a five-plus hour Q&A session plus our later impressions. We focus particularly on those points we think:

- are relevant for Berkshire as an investment,
- have an impact on other portfolio investments, or
- resonate particularly well toward fostering an understanding of aspects of our investment philosophy, which is obviously greatly influenced by Mr. Buffett.

Tech Stocks, Performance, and the Possibility of a "Fallout"

Q Mr. Buffett was asked early on during the meeting about his opinion on technology stocks' ascent, and the possibility of a correction. Directly in his answer, and at a variety of other times during the day (sometimes unsolicited) Buffett sprinkled worthwhile food for thought about technology, its impact on investing and capitalism, manias, and other issues. We provide a synopsis of several of these below.

A Buffett opined that market excesses will be corrected, eventually, but that it can take a while. Eventually, the "disgorgement of cash" will govern the value of an investment, but in the meantime other factors intervene and can hold sway for long periods of time. Buffett's view was that Ben's Graham's observation of the market as a "voting machine" (popularity) short term and a "weighing machine" (value) long term was accurate and applicable. In the aggregate, much less wealth, if any, is created rather than transferred from one investor to another, minus the frictional costs of trading. In the meantime the bull market creates its own apparent truth. Berkshire vice-chairman (and a curmudgeonly Robin to Buffett's bookish Batman) Charlie Munger added something to the effect of: that's why they call it <u>wretched</u> excess. Buffett used the example of a previous period where Nebraska farmland had gotten bid up aggressively, despite a lack of economic underpinnings such as increased farming yields, higher commodity prices, scarcity of products, etc. There wasn't any real fundamental foundation for an increase in the value of the land, but for a long time many people made lots of money buying and selling it. Eventually, things reverted to rational economics and lots of people held vastly overpriced farmland.

Q In response to several questions about technology investing, including one cheeky questioner claiming to have earned 100% last year in tech (Buffett suggested he hand out business cards) and another who was simply **incredulous** that Buffett couldn't "understand" tech companies, Buffett made several statements we view as noteworthy and instructive.

A First, Buffett indicated that lack of ownership of technology shares by Berkshire was based not on some "religious conviction" against tech stocks, but rather on a conservative approach. Buffett feels no compulsion to engage in opportunities where he doesn't feel that chance is tilted in his favor, and in this area he doesn't like the odds. And he is unique both in situation and temperament to feel neither pressure nor remorse about the appearance of or actual opportunity cost that a conservative stance may create.

A Thankfully, in our view, Buffett clarified a statement that we think may be as inappropriately interpreted as it is widely quoted. It is usually printed that he doesn't "understand" technology companies. A skeptical shareholder took him to task on this issue, citing Buffett's well-known intellect and his personal friendships with tech-company luminaries. Buffett responded: "*We understand the product, we understand what it does for people, it's the economics. We don't understand what the economics will be ten years from now*." **To repeat, Buffett indicated that it was not that he didn't understand the products or the businesses, but that if he can't see the long term (10-20 years) economic situation clearly, he isn't interested in committing capital. This may seem to many observers a semantic distinction, but we think it's relevant.** Surprisingly, there are many people who really believe Buffett has no concept of the changes technology has wrought and is thus somehow completely out of step with current investing conditions. Given our long exposure to various and sundry examples of Buffett's prodigious intellect, we think the attribution to him of ignorance about technology's impact is off the mark. Notably, Buffett indicated that he suspects Bill Gates and Andy

Grove are no more likely than he is to have an accurate vision of the technology landscape ten years out; one would suspect he has this on rather competent authority, since he counts both as friends.

A Taken collectively, we think Buffett's technology comments (and those on the internet shown separately) are highly relevant and instructive for our clients for several reasons. First, it seems to have annoyed and angered people that Buffett was thought to be out-of-hand dismissive of such a large segment of the economy and the one where, however much we hate to even acknowledge such things, "all the action is" (or is at least perceived to be). The discourse at the annual meeting indicates clearly that Buffett is surely thinking about all kinds of developments and their potential as investments or their impact on other industries and investments. We suspect that list includes technology companies; to expect someone with his nearly single-minded interest in all things commercial not to do so would be to sell the man terribly short. It remains possible though unlikely that he will find his requisite level of clarity in some area of technology someday. One thing we think we can comment on authoritatively through many years of following Berkshire: if Buffett finds a tech stock to buy, don't expect him to telegraph it. He would be no more gratuitous with information about an investment in a technology related issue than on any other of Berkshire's publicly traded securities operations, and he is known to be (rightly, we think) tight lipped in this area of proprietary advantage.

A As our clients know, we are similarly looking for opportunities in the technology arena (see our comments **in "To B2B or Not to B2B?**"). In our view, we have an advantage over Buffett in two ways that we think will help us find opportunities he might pass on. First, we are much smaller and can find opportunities that would not be worth Buffett's while. He himself has indicated on numerous occasions that his opportunity set would expand dramatically if he was working with smaller sums. Additionally, we do not share Buffett's exclusive appetite or desire for an entire portfolio full of twenty year "sure things". Buffett , by virtue of Berkshire's structure and ownership, is the ultimate long term player with arguably the longest time horizon of any investor; our somewhat shorter time horizon allows us to consider things that simply don't fit into Berkshire's mold.

Mr. Buffett on the Internet

Q The internet was a major topic of conversation, both from the standpoint of investing in "dot-com" type companies as well as its impact on business. The topic was addressed directly in specific questions and as an adjunct in the answers to other questions not directly phrased as internet-related.

A Importantly, Buffett indicated that he and Charlie do look at the threats and opportunities associated with the internet. He pointed out that they believe many businesses will be very affected by the internet, and further identified three well-known Berkshire investment areas – publishing, retailing, and insurance – as being among those most impacted. This isn't news per se, as Buffett indicated last year that he believed the internet would have a lasting impact on the economics of several long-entrenched business models. In fact, he used retailing as an example last year, opining that he thought brand would matter bunches in an increasingly crowded field and named both Tiffany's (thanks, Warren) and Borsheim's as having the decided advantages of brand and trust that he thought would be intrinsically valued by consumers pursuing big-ticket items in the anonymity of cyberspace. (To drive home the point, "*If you don't know jewelry, know the jeweler*," is pasted right on the front page of the Berkshire website.) From our standpoint, Buffett's internet and technology comments this year seemed more focused and the thinking about the prospects going forward more pointed. He may be as tired as we are of seeing (to the extent he looks, knows or cares) rank amateurs in online chat rooms, or even respected journalistic sources, declare him essentially incompetent and suggest he be pastured in favor of a more tech-savvy strategy.

A Notably, Buffett isn't sanguine about all of the effects of the internet from the standpoint of equity shareholders in general. In contrast with the prevailing euphoria over a new world order, Buffett and Munger alike seem relatively resigned to the fact that the heightened competition will over time have deleterious effects on capitalists. Buffet's comment was that "the internet gives everyone real estate" and he analogized to the former sweet spot of any business lucky enough to be located at the corner of Dodge and Farnam Streets in Omaha, the spot where the streetcars stopped - which was fantastic until there weren't any more streetcars. The "virtualization" of business has massively impacted a previously dominant dimension of competition– physical location – that has served as a basis of business advantage for hundreds if not thousands of years. In Buffett's and Munger's view, because by its very nature the internet lowers that one obvious, as well as other more complex, competitive advantages enjoyed by all businesses, it will very likely on balance drive down returns to shareholders via the increased competition and "democratization" of business. We found this entire discussion to be an amazingly lucid, cogent argument about the implications of information and technology from people who ostensibly "don't understand" technology.

- Interestingly, this view sits in almost direct opposition to a Pollyana investment zeitgeist that the internet has somehow created a financial fountain of wealth for all investors and speculators to bathe in without limit or regard to rational financial moorings. Importantly, Buffett doesn't fret his viewpoint, believing the net effect (no pun intended) to be extremely positive for consumers and society. We suspect he is also secure in the confidence that while the internet may increase competition broadly, the types of superior and durable business he seeks out are not doomed to mediocrity but will thrive even in a more challenging environment (on a relative basis, arguably more so).

- In a similar vein, Charlie Munger reiterated the conclusions of Buffett's November *Fortune* article that posited drastically optimistic prospective return assumptions versus the probably achievable outcome. (Our views on this article are reproduced below, excerpted from our fourth quarter 1999 client communication). IN THE AGGREGATE, the future investment returns are likely to disappoint relative to inflated expectations, simply because the capacity to earn 20-30% returns is mathematically limited in a 4-5% GDP growth economy. We believe that we have actually lost clients based on this article, some of them having concluded that walking through the arithmetic indicating the probability of lower future returns spells doom for Buffett and anyone who invests like him. We recognize the disappointment that a lower return environment will represent versus current (unrealistically high) expectations. Nonetheless, we believe the future will still offer historically attractive opportunities, particularly so when stock selection begins to matter more in an environment lacking a "rising tide to lift all boats."

- There were also more amusing-yet-pensive comments related to the current get-rich-immediately environment fostered by dot-com mania and day-trading. Charlie opined that "There are worse things in life than being left behind in gathering a lot of lovely money." (To which Buffett, ever the capitalist and straightman, followed, "Care to name a few?") Buffett later added some version of, "You should not be miserable because others make money at something you don't understand." We would add our two cents that not only should you not be miserable at the prospect, but that those who try to become something they are not, and profit from anything without understanding it may be successful for a time depending upon the randomness of events. It remains our contention however that the likelihood of ultimately failing in an endeavor one does not fully comprehend is in our view increased exponentially versus pursuing logic and reason. It doesn't fit within any formula and it can't be proven or disproven; we still think it's true, and that it likely rings true for others.

The Big Picture

Surprising no one we're sure, we happen to agree with Mr. Buffett's calculus in a recent Fortune article. All investors really should read it, and just to prove we're not technophobic rubes, here's a link to the Fortune website version of the article:

http://www.fortune.com/fortune/1999/11/22/buf.html

The article discusses the level of inflated investor expectations for returns from the overall stock market prospectively.

We will echo Buffett's sentiment that neither the article or our agreement with its conclusions in no way should be interpreted as a stock market prediction, or opinion on "the level of the market." We don't think in those terms and never will. Nonetheless, it seems prudent to allow that conditions going forward are less likely to be as favorable as those that have helped achieve the returns of the last two decades. While we view the threat of an ill wind on a macro-market basis with appropriate respect, we take comfort from our thesis that such an environment would ultimately favor the stock picker versus the index funds or sector theme players.

Next Installment – Insurance Industry and Operations

Important Information:

We present this collection of information, opinions, interpretation, and conclusions gathered from our recent visit to the Berkshire Hathaway annual meeting in Omaha, Nebraska because we thought it would be useful and interesting to share some thoughts and ideas associated with this visit with clients, shareholders, prospective clients and other parties in the hope of communicating a greater understanding of the rational, research-based investing that we practice. We are in an ongoing process of digesting information and drawing conclusions from our recent visit; as such, we will periodically update and augment this information over the next few weeks. While much of the discussion associated with the Berkshire meeting will be general in nature, some of it will be specific to Berkshire as an investment. **It is critical that readers understand that we are not making a specific investment recommendation of Berkshire Hathaway or any other specific security.**

Any discussion of specific securities is intended to help clients understand our investment management style, and should not be regarded as a recommendation of any security. Displays detailing a summary of holdings (e.g., top ten holdings, etc.) are based on the holdings of the Oak Value Fund as of March 31, 2000. Information concerning the performance of the Oak Value Fund and our recommendations over the last year is available on request. Past performance is no indication of future performance. You should not assume that future recommendations will be as profitable or will equal the performance of past recommendations.

Statements referring to future actions or events, such as the future financial performance or ongoing business strategies of the companies in which we invest on behalf of our clients, are based on the current expectations and projections about future events provided by various sources, including company management. These statements are not guarantees of future performance, and actual events may differ materially from those discussed herein. References to securities purchased or held are only as of the date of this commentary. Although we focus on long-term investments, holdings are subject to change.

This commentary may include statistical and other factual information obtained from third-party sources. We believe those sources to be accurate and reliable; however, we are not responsible for errors by them on which we reasonably rely. In addition, our commentary is influenced by our analysis of information from a wide variety of sources and may contain syntheses, synopses, or excerpts of ideas from written or oral viewpoints provided to us by investment, industry, press and other public sources about various economic, political, central bank, and other suspected influences on investment markets.

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This portfolio company research note is being preceded or accompanied by a prospectus for the Oak Value Fund; please read it carefully before you invest.