

Dear All,

I recently attended the Berkshire Hathaway 2005 Annual General Meeting and briefly spoke with Warren Buffet and his partner Charlie Munger. I consistently make this annual pilgrimage to Omaha, and find these meetings very useful.

Not only is the gathering a 'Woodstock for Capitalists' but also, each meeting leaves me feeling ever so positive and motivated. It is always awe-inspiring to hear Buffett share his unique blend of philosophy and financial pointers.

During the Annual General Meeting held this April, I wrote down notes on some of the questions that the shareholders and investors present raised. They make for interesting reading.

Enjoy!

What expertise are you looking for from Bill Gates?

Warren:

You have one of the best minds in the world. You have someone that wants to be very helpful in my life, and after my life, with what happens with Berkshire. A good, smart friend who understands the culture. In effect, kind of like putting him as trustee of the will. Nothing is more important to me than what happens to Berkshire.

Charlie:

He has the enormous advantage of being 50 years old!

Why are private equity firm results so different than Berkshire?

Warren:

Subject of finance does not correlate with IQ. [It is related to] something harder to measure temperament. You have to have a basic understanding of what counts and what doesn't. You simply can't be influenced by those around you. Make independent judgments. Part of the difficulty of the game is there is over-activity.

Charlie:

We know better than most people, what we know and what we don't know. You also have to be willing to sit still accurate self-knowledge.

Warren:

Have to know the perimeter of your circle of competence.

Charlie:

We have a friend who bought 5% of Costco on a single day.

Warren:

You don't get rich through diversification.

Charlie:

If you want to win a bass fishing tournament, your search engine has to know where to look.

US Trade Deficit?

Warren:

Whenever extreme imbalances occur, you're running the risk of more timbre in the pile, but whether a match drops... The probability isn't trivial. The longer it goes on, the greater the possibility.

How do you decide when to lighten a position and when to sell? What P/E value should one lighten and when to sell?

Warren:

Fisher said, "If you're in a very good business, the time to sell it is never!"

Charlie:

We don't have a conventional mindset on that issue. Ideally all decisions should be made based on opportunity costs. For example marriage. (*At this point, Warren jokingly said something to the effect that Nancy Munger got the short end of the stick. Charlie looked over at him and shot something back.*) We observe that rule like breathing.

Asia?

Charlie:

Obviously the next room to change is China. You have the largest group of under-employed, and they have shown the ability to work harder than anyone else when liberated into western economics. China has the ability to possibly become the most influential country in the world. Look at what happened to the ethnic Chinese exported from Malaysia - Singapore! Given a whiff of freedom and modern economics, no one is able to take advantage of it better than the Chinese. It's wise to predict that this group will do very well.

Fitch and credit rating?

Warren:

They discovered I was mortal! I hope to prove them wrong! I have not talked to them. We actually have claims on the books that extend over 50 years. We will never run Berkshire where our cheques wouldn't clear. We wouldn't run the risk that a foundation with all its capital invested, could lose it.

Charlie:

I can hardly think of anything that is less likely to fail than Berkshire!

Does the U.S. have a significant moat and how can we make it bigger?

Warren:

The U.S. is not an economic castle anymore. It will decline somewhat because rest of world is adopting best practices. Good for the world and good for the U.S. that the world is more prosperous. Growth of trade good. Other parts of the world will grow faster, since they are starting from a lower base.

Charlie:

We may lose position in world. Asia will do best in terms of percentage gain and will become bigger than we are.

GM & Ford?

Warren:

The current CEO's have inherited a cost structure brought about by contracts, put in place many decades ago, that would not allow them to be competitive. It's an extremely difficult hand to play. Healthcare costs and annuity costs are staggeringly high relative to competitors. You have \$90B in pension funds, \$20B in healthcare, yet only \$14B in equity.

Charlie:

Warren gave a very optimistic prognosis. The GM employees and management following status quo for so long is like jumping out of the window on the 42nd floor. At around the 20th floor you're still doing fine as you are falling, but it doesn't mean you don't have a serious problem!"

Real Estate A Bubble?

Warren:

Residential real estate will have slightly different consequences than say farm land or commercial real estate.

Charlie:

You have a real estate price bubble in certain metropolitan areas. You have some very extreme housing bubbles.

Hedge fund industry and how does it affect BRK?

Warren:

Far more money looking at deals than five years ago, that are willing to pay up for the good but mundane businesses we look for. It can't go on forever... We both find it extraordinary how fast things change. In my career, there have been three periods where there was money sloshing around. Within a few years, I saw the greatest opportunities of my life.

Also, I was recently interviewed by CNBC on this Warren Buffet meet and the current FII inflow in India. Attached is the link for the same.

http://www.moneycontrol.com/backends/News/frontend/news_detail.php?autono=168677

I look forward to meeting with you soon.

Sincerely,

Amitabh Singhi