



EDITED BY

LAWRENCE A. CUNNINGHAM
& **STEPHANIE CUBA**

Hh

PRAISE FOR
THE WARREN BUFFETT SHAREHOLDER

“Larry Cunningham and Stephanie Cuba have composed The Playbill to the greatest Business Show on Broadway—make that Omaha—namely, the Berkshire Hathaway Annual Meeting. Don’t even think of attending without it.”

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“Oh to be in Omaha come the first weekend of May! This smart and engaging book gives you scores of expert opinions as to why you simply need to get there.”

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Of Permanent Value: The Story of Warren Buffett

THE
WARREN BUFFETT
SHAREHOLDER

*Stories from inside the
Berkshire Hathaway
Annual Meeting*

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P R E F A C E

COLLECTIVELY, THE CONTRIBUTORS to this book have attended the Berkshire Hathaway Annual Meeting 750 times. In this book, they offer their reflections on this valuable experience with the company Warren Buffett built. Their essays reveal that Berkshire, far more than a mere conglomerate of businesses and faceless shareholders, epitomizes the roots of the word *company*, from Old French *compagnie* meaning society or friendship, and Late Latin *companio*, signifying gathering for a meal.

Berkshire shareholders are a society bound together by common values of learning, integrity, innovation and community. And nowhere are these traits more evident than springtime in Omaha when throngs of Berkshire shareholders gather for several days and scores of events around the company's Annual Meeting. Most of our contributors said, as many other Berkshire shareholders have, that Buffett changed their lives. Not by making them rich, but by building an institution that has become central to their lives, a part of who they are.

In these pages, you will read original stories from some of the most distinguished writers about Berkshire and Buffett. In the opening chapter, such astute observers as Jason Zweig, Steve Jordon, Robert Hagstrom, and Randy Cepuch discern common traits of the Berkshire shareholder and the unifying themes of the Annual Meeting. These

bonds, all based on a shared sense of community, are so cherished that at the end of each event of the weekend, no one wants to leave. This chapter gets to the root of the reasons why the Meeting draws tens of thousands of shareholders year after year, stressing the desire to get to know the company and its personality.

Since the 1980s, Berkshire has attracted such distinguished investors as Tom Gayner, Mark Hughes, Tom Russo, and Ingrid Hendershot, who go on to explain how the Meeting is not only a defining convocation but a place where they have learned invaluable strategies for building their own businesses. The Meeting gives these and other investors the opportunity to learn directly from the managers of Berkshire's numerous operating businesses, on issues from capital allocation to decision-making.

The abundant literature on Berkshire and Buffett, as well as on Vice Chairman, Charlie Munger, attests that reading is a fervent habit of Berkshire devotees. At the Annual Meeting, this means big business for Omaha merchants Phil and Beth Black of The Bookworm and Jim Ross of Hudson Booksellers. They consult Buffett and Munger to assure stocking suggested books and host jam-packed book signings all across Omaha. The Annual Meeting inspired such authors as Karen Linder, Jeff Matthews, and Laura Rittenhouse to further explain the central place of reading, books, and readers in Berkshire's ecosystem.

Historically, the Annual Meeting focused on the question-and-answer session among Berkshire shareholders, journalists, analysts, and Buffett and Munger, debating views like students in a college seminar. Following that tradition, the Berkshire Meeting weekend now boasts satellite forums for panels across Omaha, where essayists in this book—and scores of others—can be heard.

Our contributors feature such hosts as Robert Miles of the University of Nebraska and John Wingender of Creighton University. They tell of the proliferation of gatherings in the past two decades,

during the days leading up to the Meeting, that draw crowds of inquisitive and intelligent shareholders. Such luminaries among value investors as Patrick Brennan and Vitaliy Katsenelson share their experiences of giving talks and serving on panels. Both marvel at the quality of the discourse among students and professionals alike.

Buffett and Munger love to teach—Buffett did so at a university in his younger days, has guest-lectured in later years, and annually hosts as many as 60 master classes in his Omaha office where he has met with thousands of students. Knowledge gained at the Berkshire Meeting has helped to shape the research, syllabi and teaching of professors nationwide. Many contributors to this book remark upon Buffett’s distinctive teaching style, which tends to instruct people *how* to think rather than *what* to think.

Georgetown University’s Prem Jain found Buffett’s pedagogy—more approach than answer, more guidance than decree—to be at the core of why Berkshire shareholders flock to Omaha. For Jain, by attending the Meeting year after year since 1987, he discovered the core of Berkshire’s institutional success: investing in people, not merely in metrics. Professors Tom Johansen of Fort Hays State University and David Kass of the University of Maryland, who have likewise attended decades of Meetings, write of how the experience transformed their teaching.

Berkshire’s entrepreneurial spirit is infectious, both within the company and around the Meeting. Just as the Meeting organizers regularly invent new ways to engage shareholders—from jewelry store receptions to a 5K race—the shareholders themselves have launched their own initiatives. One innovation highlight recorded here occurred in 2000 when Joel Greenblatt and John Petry introduced the Value Investors Club at a Berkshire Meeting by giving away 5,000 copies of *The Essays of Warren Buffett: Lessons for Corporate America*.

You will read about the U.K.'s Buffettology Fund established by Keith Ashworth-Lord; GuruFocus created by Charlie Tian that hosts an annual reception during the Meeting weekend; a Friday dinner panel convened annually by Columbia Business School and the Gabelli Organization (with the help of Mac Sykes); and ongoing weekend receptions designed for newcomers to the Meeting hosted by Whitney Tilson.

The Berkshire Meeting attracts hundreds of Berkshire managers, including CEOs of its scores of subsidiaries. In addition to overseeing merchandising activities in the CenturyLink Center, they all value the Meeting as an opportunity to confer with each other and share best practices at the CEO Roundtable, an invention of Tracy Britt Cool. According to contributors Bruce Whitman (FlightSafety), Tom Manenti (MiTek), and Tony Nicely (GEICO), all see the Meeting as a valuable way to get to know fellow shareholders, greet customers, and reward employees. The CEOs prize Berkshire's distinctive corporate culture, especially after selling their company to Berkshire, as the late Sam Taylor of Oriental Trading did, testified in this book by his friend, Phil Terry.

Berkshire culture continues to inspire intellectual debate, evidenced in this book by attorneys Robert Denham and Simon Lorne—both longstanding veterans of the Berkshire ecosystem, having joined with Buffett in rehabilitating investee Salomon Brothers from its 1990s bond trading scandal. They put the details of the Meeting under a microscope and dissect its character and purpose, and explore why it's not replicated elsewhere. Thought leaders Raymond Buck Hartzell and Shane Parrish discuss the Meeting as a pursuit of learning, a sacred ritual and a time of personal reflection.

Shareholders Francois Rochon and Andy Steginsky sum it up well, declaring the Meeting a pilgrimage of kindred spirits fulfilling annual traditions. Jack Bogle has only attended one Meeting, but attests that

even one can change your world. For his 88th birthday, on the floor of the CenturyLink Arena, Bogle received a gracious shout out from Buffett followed by a warm round of applause from the shareholders; it was a weekend he will never forget.

In our final chapter, you'll hear from legendary Berkshire shareholders, Chuck Akre, Tim Medley, and Daniel Pecaut, who began attending the meeting in the mid-1980s, when Buffett first issued a public invitation to join. They acquired Berkshire shares for less than \$3,000—stock that's worth 100 times that today. And amid their decades of lessons, they get to the core message of all shareholders at the Berkshire Annual Meeting: if you've never been, go; if you always go, keep going.

* * *

The essayists within bring rich and diverse reflections that reminded us, when assembling the book, of the best kind of pot luck party. As our guests received their invitations, some knew instantly what to bring and others consulted with us. As their contributions arrived, each offered something new—perceptions, vignettes, analyses—like well-procured provisions of a social gathering. Arranging the pieces was akin to seating a dinner party. We grouped people together in order to promote the best possible interaction, within each chapter and among the whole.

We organized the work by thematic point of view—such as writers, professors and managers. Our contributors occupy multiple categories—all are readers, partners and pioneers—and their essays could be relocated to other positions in this collection. Overall our choices intended to create a narrative that flows, but each piece can be read independently of the others. We edited the contributions for style and fit, preserving each writer's view while promoting uniformity and avoiding repetition.

Our contributors serve up one wonderful dish after the next, about the sense of Berkshire's shared values, the spirit of community, the inspiration to read and write, the collegial bonds that have formed, and how knowledge has been generated and transmitted. They take us with them through the numerous events on the days before and after the Meeting, from Thursday to Sunday, including book signings, talks, panels; summits, seminars, conferences; and receptions, dinners, and group outings.

Like most people, we are familiar with many recurring descriptions of the Berkshire Annual Meeting. Contributions in this book, however, omit the old points to offer fresh insights instead. While the Meeting may be "like getting an MBA in a weekend" and is called the "Woodstock of Capitalism," we have purged those phrases from what you will read. Likewise, while Berkshire and Buffett have "changed many lives," rather than repeat the compliment, the essays speak for themselves.

We conceived of this book in order to highlight the enduring values of the Meeting, to show the sustenance of its traditions. Our premise was that Berkshire's intrinsic value owes a lot to its corporate culture and that its corporate culture owes a lot to the Meeting and shareholder community.

Buffett wrote in his 2014 letter to Berkshire shareholders that the Annual Meeting is:

designed with an eye to reinforcing the Berkshire culture, and making it one that will repel and expel managers of a different bent. This culture grows stronger every year, and it will remain intact long after Charlie and I have left the scene.

We agree. We therefore believe that the Meeting and the company will endure indefinitely. The contributions in this book back up this

prognostication. They attest to something special about the Warren Buffett shareholder, something universal and timeless.

Berkshire Hathaway has created a culture of intelligence, inquisitiveness, integrity and learning. This culture is part of the “company” in both the corporate meaning of that word and in its sense as a society of people coming together (*com*) to break bread (*pan*).

We enjoyed putting the book together, just as we do the Annual Meeting. Hope to see you there—year after year.

Larry & Stephanie

April 2018

J O H N C . B O G L E



A Shout Out

WARREN BUFFETT IS among the world's richest men, which allows him to support a host of worthy philanthropic causes. But his greatest gift to society may well be his ability to explain simple investment principles in a homespun manner that investors can easily understand. He is equally generous with his praise of those individuals who share his values. I'm one of the lucky ones.

Here's my story: late in December 2016, I received a note from my good friend Steve Galbraith asking me to put a "save-the-date" marker on my calendar for the weekend of May 6, 2017. He and his wife Lucy had a plan, undisclosed, to celebrate my 88th birthday on May 8.

Steve and I have been friends since 1999, when he was a security analyst covering fund management companies at Bernstein Research. When he became Chief Investment Officer at Morgan Stanley, and then a partner at hedge-fund manager Maverick, our friendship continued and deepened. He and Lucy now work together at their Kindred Capital Advisors money management firm.

At a dinner in Omaha with Warren and his new team of money managers (as Steve later told me), he mentioned our friendship. When Warren echoed that admiration—and more—Steve offered to bring me to the upcoming Annual Meeting. Warren thought that was a great idea, and so the plot was hatched.

Unbeknownst to me, Steve checked with Emily Snyder, my assistant at Vanguard, and with my wife Eve, and told them of his plan to fly me out to Omaha and attend the Berkshire Hathaway Annual Meeting, something I had never done before.

So when the morning of May 5 arrived, Eve and I, with daughter Barbara and son-in-law Scott Renninger in tow, drove to Atlantic Aviation, Philadelphia's terminal for private planes. No sooner had we arrived than a Citation jet with Steve and Lucy aboard swooped down and scooped up our quartet. We were on our way! (Son Andrew and his friend Kathryn would meet us in Omaha on Saturday morning.)

After a short hop (that jet is fast!), we landed in Omaha. As Vanguard's founder, I'd attained a modest celebrity status in the world of investing, but that hardly prepared me for the reception I received when we entered the Omaha Hilton. At least ten guests, armed with camera-ready iPhones, immediately snapped away at the new arrival.

Later, when our sextet dined at the hotel, scores of celebrity hunters continued to take photos, asking politely and working smartly. (I quickly learned that saying "yes" was infinitely more efficient than saying "no" and then arguing about it.)

When I awakened on Saturday morning and looked out of my hotel room window, I could hardly believe what I saw. A line, maybe four persons wide, stretched from the CenturyLink Center, site of the Annual Meeting, to as far as I could see.

All told, 40,000 people would attend the 2017 Annual Meeting, almost half of whom were in the arena, with the rest of the throng watching on video from a remote site. Our now octet was ushered

to premier seating in the arena, right behind the space reserved for Berkshire Hathaway long-time shareholders, and next to the company's directors. Warren and Charlie Munger were seated on the stage immediately before us.

As Warren gave his opening remarks—a summary of Berkshire's 2016 results—I couldn't help wondering why Steve had brought us to Omaha. My question was soon answered, as these excerpts from the Meeting transcript reflect:

Buffett: Jack Bogle, who had done probably more for the American investor than any man in the country. Jack, could you stand up? There he is.

Jack Bogle many years ago, he wasn't the only one talking about an index fund, but it wouldn't have happened without him. Paul Samuelson talked about it. Ben Graham even talked about it. But the truth is, it was not in the interest of the investment industry of Wall Street to develop the index fund because it brought down fees dramatically. Index funds overall have delivered for shareholders a result that has been better than Wall Street professionals as a whole. And part of the reason for that is that they brought down the cost very significantly.

When Jack started, few people—and certainly not Wall Street—applauded him. And he was a subject of some derision. We're talking trillions when we get into index funds. We're talking a few basis points when we talk about fees in the case of index funds, but hundreds of basis points when we talk about fees elsewhere. And I estimate that Jack, at a minimum, has saved, left in the pockets of investors without hurting them overall in terms of performance, gross performance, he's put tens, and tens, and tens, of billions into their pockets. And

those numbers are going to be hundreds and hundreds of billions over time. It's Jack's 88th birthday on Monday. So I just say, Happy Birthday, Jack. And thank you on behalf of American investors. [APPLAUSE]

And Jack, I've got great news for you. You're going to be 88 on Monday and in only two years, you will be eligible for an executive position at Berkshire. So hang in there, buddy. [LAUGHTER]

Despite my surprise and delight, I was able to stand up and wave to Warren, Charlie, and the cheering crowd. I confess to being deeply and emotionally touched by Warren Buffett's generous words—a "Red-Letter" day in my now 67-year career. For this overwhelming outpouring of support and recognition, I can only say, "thank you Berkshire shareholders."

After Warren's shout out, the number of photo seekers soared, to the point where I found it useful to leave each session five or ten minutes before the intermission. Even then, I began to understand why rock stars among our entertainers are so eager to avoid the paparazzi who follow their every move. But I confess that, on this one grand occasion, I found huge satisfaction in being recognized for my contribution to the world of investing, and to the wealth of the human beings who have entrusted their assets to Vanguard's index funds. (I'm only human!)

Some Berkshire shareholders may have been surprised when Warren recognized my contributions to the investment landscape at the Meeting. But Warren has been singing the praises of indexing and Vanguard since at least 1996. In his letter to shareholders in Berkshire Hathaway's 2016 Annual Report, Warren offered what was perhaps an even more generous accolade: "If a statue is ever erected to honor the person who has done the most for American investors,

the hands-down choice should be Jack Bogle. . . . He is a hero to them and to me.”

This was hardly the first indication that Warren and I operated on investment principles that, while a long way from identical, have a certain commonality. Putting his money where his mouth is, Warren made a \$1 million bet with hedge fund manager Ted Seides that the Vanguard 500 Index Fund would outperform an average of any five hedge funds of Ted’s choice over the coming decade, as described in the 2016 Annual Letter. Unsurprisingly (to me at least), Warren won the bet handily, and Girls, Inc. of Omaha was enriched by \$2.8 million.

In his 2014 Letter, Warren pointed out that most investment advisors “are far better at generating high fees than they are at generating high returns. In truth, their core competence is salesmanship. Rather than listen to their siren songs, investors—large and small—should instead read Jack Bogle’s *The Little Book of Common Sense Investing*.” In his 2013 letter, Warren wrote that he has directed his wife’s trustee to invest 90% of her assets in Vanguard’s 500 Index Fund.

And in 1996, Warren wrote that “the best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the net results (after fees and expenses) delivered by the great majority of investment professionals.”

In his endorsement of my latest book, *The Little Book of Common Sense Investing, 10th Anniversary Edition* (2017), Steve Galbraith recognized the parallel paths taken by me and by Warren Buffett:

One hundred years from today, historians will remember only two investors from this era—Warren Buffett and Jack Bogle. The two books they will note? Buffett’s bible, Ben Graham’s *The Intelligent Investor*, and . . . anything written by Jack Bogle. In a world of investment foxes, Jack remains a stalwart hedgehog.

On the evening following the Berkshire Hathaway Annual Meeting, Steve and Lucy sported our group to a fabulous dinner at one of Omaha's finest steakhouses. They also invited several of their fellow money managers, including Ted Seides, on the verge of losing that bet with Warren. (I decided not to raise that sore subject.)

We then repaired to the Omaha Hilton for an after-dinner libation. (I was happy to pick up the tab.) Later, when Eve and I strolled back through the lobby, eager photographers were still snapping away on their iPhones. I was tempted to duck and run, but agreed to one more session. Good judgment! Three people with their iPhones at the ready were staff members at Berkshire Hathaway. We had a nice conversation, and I eagerly accommodated them.

Then, to the elevator. There a uniformed American Airlines pilot pulled out his iPhone. What the heck? Why not? Again, good judgment! He wanted a photo for his uncle, a Vanguard crew member. (Better to be known around the office as a nice guy rather than a jerk!)

Back in our room at last, and excited by the spirit of the day, I suggested to Eve that we do a "selfie." (Truth: I thought about it, but decided we'd had "Enough"—the title of my 2008 book.)

Accolades are wonderful, endorsements are too, and even being mobbed by photo seekers is okay. (Barely.) But lasting connections with other human beings is what makes life worth living. I treasure the friendship and mutual admiration that I've shared with Warren Buffett and Steve Galbraith, men of integrity, wisdom, and class. Reinforced as they were at the 2017 Berkshire Hathaway Annual Meeting, those connections will last my lifetime.

John C. Bogle is the Founder of Vanguard and the author of many books, including *The Little Book of Common Sense Investing*.

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Shareholder*

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