



COMMODARI ANTINORI GROUP

SAFEGUARDING YOUR WEALTH

BERKSHIRE HATHAWAY'S 2011 ANNUAL MEETING

People in the investment industry often make reference to Warren Buffett, but few really listen to what he has to say, and even fewer put those lessons into practice.

As you know, being value investors, not only do we listen very attentively to what Warren has to say, but for well over a decade now, we have made the yearly pilgrimage to Omaha, Nebraska to attend the Berkshire Hathaway annual shareholders meeting. We do this because Warren and his partner, Charlie Munger, bring to investing an ability to articulate simple, common sense, easy-to-apply principles that can be very helpful to us in the management of your portfolios.

This past weekend, Warren and Charlie held court once more to thousands of Berkshire shareholders from around the world – current company included. As usual, they provided what we think to be the best and most valued lecture on investing, business, human nature and the current investment, business and political climate. Here are some of the thoughts and ideas we deem to have been the most relevant.

WHERE TO HOLD CASH

- Buffett said all the choices are lousy on short-term money now, but that they don't play around with their cash. "We get paid virtually nothing now for it, and it's irritating, but the last thing we would do is to try and get 5 or 20 bps more by going into other things with our short-term

money. It's an unattractive parking place, but one where we know we will get our car back."

THE IMPORTANCE OF GROWTH

- Buffett explained that growth is part of the investment equation but that it was not paramount. He said that although they love businesses that grow and produce a high return on capital, they do not rule out companies where they think there will be little or no growth if the price is attractive relative to the earning power.
- Munger added that although business schools teach people to make grandiose projections way into the future, he has always regarded those projections as doing more harm than good. "There is an enormous false precision that gets into things when you program computers to make wealth projections."
- Buffett and Munger pay no attention to other peoples projections. Instead, they have a model in their mind of where a business is likely to be in ten years and how far off they can be on those numbers.

LUBRIZOL CONTROVERSY

- Buffett characterized David Sokol's trading in Lubrizol as "inexplicable and inexcusable." He said it was inexcusable because he violated Berkshire's principles and it was inexplicable because no attempt was made to disguise his trades.
- Munger added that "it is a mistake to think that rationality is perfect even in smart people."

GOLD, INFLATION & COMMODITIES

- Buffett outlined three major categories of investments and said you ought to think very hard about which category you want to be in before you start thinking about the choices available within each.
- Described first category as anything denominated in a currency - bonds, deposits in a bank, money market funds or simply cash in your pocket. He pointed out that almost all currencies have declined in value over time and, as a class, currency related investments, whether in UK, US or elsewhere do not make much sense.
- Described second category of investments as items that you buy that don't produce anything but that you hope someone will pay more for later on - classic case for this is gold. Buffett said "if you take all the gold in the world and put it into a cube, it would measure 67 feet on a side and you could climb up on it, fondle it, polish it, stare at it but it would not do anything." He went on to say that all you were doing when you bought it was hoping that someone else a year from now or five years from now will pay you more to own something that, again, can't do anything.
- Described third category of assets as something that can be valued based on what it will produce or deliver over time. Said that based on this, you can make a rational calculation and the success of the investment will be determined in your own mind by whether it beat your expectations as to what it delivered.
- Buffett said he would bet on good producing businesses to outperform something that doesn't do anything over any period of time, but there is no question that rising prices create their own excitement, so when people see gold rising they want to own it. "Over time, that has not been the way to get rich."

AMERICA'S ECONOMIC FUTURE

- Buffett is enthused about America and said that since 1776 it has always been a mistake to bet against it. Said there will always be a list of 10-15 things at the start of the year telling you why the country can't possibly work well.

- He pointed out that the game is not over and that the potential of America is not used up. What has happened is that the rest of the world has caught on to some extent. "Places like China are turning dormant economies loose that have been dormant for centuries. But it's not because they are smarter or work harder, it's because they tapped into a system that works marvelously over time."
- He highlighted the fact that since 1930, the standard of living for the average American rose 6:1 and went on to say that over the next 100 years we will probably have as many as 20 lousy years but will be so far ahead of where we are now that we will be unrecognizable.

BEST BUSINESSES TO OWN IN INFLATIONARY ENVIRONMENT

- Buffett said that products requiring very little capital to support growth are wonderful assets to have and pointed to one's own earnings ability as an example. He said that as inflation goes along, your services will command more and more in dollar terms and you don't have to make any additional investment in yourself.
- He added that businesses like utilities - that receive a bond like return - will not do that well in inflationary environment because they have aspects of a bond like investment and bonds will certainly not do well in an inflationary environment.

SENTIMENTS REGARDING OIL BUBBLE

- Buffett said there are very few commodities that he thought he knew the direction of in the next six months or a year. He added that an intelligent person can make more money over time by thinking about productive assets rather than speculating over commodities.
- He gave example of Burlington Northern and said "we do not hedge anything away in terms of commodities because I don't think we can guess the price of oil. If we could, we would not need to run the railroad and could just sit in a room trading oil instead."

REQUIRED RETURN ON AN INVESTMENT

- Buffett pointed out that one of the errors people make in business is that they try and measure every deal against the best deal that they have ever made - sometimes taking themselves out of the game. He added that the goal is not to make a better deal than ever before, but rather to make the best deal that you can make at the time.

BERKSHIRE'S DIVIDEND POLICY

- Buffett said Berkshire will pay dividends when it loses the ability to invest \$1 in a manner that creates more than \$1 of present value for shareholders.
- Gave example of a savings account paying 5% and said given choice of either taking \$50 per year out or letting money stay in and instead receiving 120% of that account any time you wanted to sell a piece. "Every dollar reinvested in Berkshire has created more than \$1 of market value, so much more intelligent to leave the dollar in and have it valued at \$1.20 and simply sell off a piece when you need cash."

WELLS FARGO & BANKING PROSPECTS

- Buffett admitted that US banking as a whole will be considerably less profitable in the period ahead than it was in the early part of the century because leverage has been reduced.
- He pointed out that even if return on assets were as good as they were some years ago there will be less assets per dollar of common equity as before which means that return on equity will be less. That said, he still thinks Wells Fargo and US Bancorp are very good operations but are not as attractive as when leverage ratios could be higher.
- Said that if you can keep out of trouble on the asset side, banking is a very good business to be in because you get your money so cheap. "It's because of the implicit Federal guarantee's that you do get to leverage up to a fair extent and America has been a good place to lend money."

FURTHER U.S. DOLLAR WEAKNESS

- Buffett thinks the purchasing power of the U.S. dollar will decline over time but does not know at which rate and how much relative to other currencies.
- Said purchasing power of all currencies around the world will decline but did not have any strong conviction as to which would decline at a faster rate nor would he be prepared to backup any feeling he may have with a lot of money.
- Buffett said we will see a lot of inflation, but if given a choice he would rather be born in the United States today than in any other place at any other time in history.

STIMULATING GROWTH THROUGH ECONOMIC POLICY

- Buffett believes that generally we followed the right policies, but that they are less important than people think they are. He said that the natural resuscitative powers of capitalism will be the biggest factor in stimulating growth.

WILL A RISE IN BERKSHIRE STOCK OFFSET A DECLINE IN CURRENCY

- Buffett said that he does not know what policy will be followed in the United States and in the rest of the world and how they will affect the relative value of currencies in 10 years from now. The only promise he made was that he and Charlie think every day about how to increase the intrinsic value of Berkshire.

RAISING THE DEBT CEILING

- Buffett said not raising it would be the most asinine act that Congress would ever perform. He pointed to the fact that a growing country has growing debt capacity.
- Said United States would not have a debt crisis of any kind as long as they continue to issue notes in their own currency. "The only things we have to worry about are the printing presses and inflation."

AVERTING A TOO BIG TO FAIL MENTALITY

- Buffett believes that any institution that requires society to come and bail it out for society's sake should have a system in place that leaves their CEO and spouse dead broke.
- He admits that the problem will always be with us and as such we need to do things to reduce the propensity to fail – holding the CEO and board accountable for starters.
- Charlie added that like in the aftermath of the 30's, this last mess should have brought on changes to prevent a new mess from happening for a very long time. Unfortunately that has yet to happen. Blamed this failure not one of evil, but rather on the stupidity of our great academic institutions who believe in a whole lot of things that are not true - particularly in finance and economics.



Mario Antinori
Investment Advisor

Tel.: 514.286.7311
mario.antinori@nbpcd.com

May 4, 2011

RENEWABLE ENERGY

- Buffett believes it is an important subject, but admitted not one that affects their investment strategy to any real degree. He added that there are a number of societal issues that do not enter into their investment or purchase of business type decisions.

DETERMINING HOW GOOD A JOB MANAGEMENT HAS DONE

- Buffett believes the real test is if earnings progress at a rate that is commensurate for the amount of capital that is being retained. He said “over time if the market value of the business is significantly greater than the amount of capital kept from shareholders, then the verdict will be in favor of management.”



Alessandro Commodari
Investment Advisor

Tel.: 514.286.7254
alessandro.commodari@nbpcd.com

 Nesbitt Burns®

COMMODARI ANTINORI GROUP

1501 McGill College Avenue, Suite 3200
Montreal, Quebec H3A 3M8
www.commodariantinorigroup.com

“Commodari Antinori Group is a boutique private client wealth management group within BMO Nesbitt Burns. We work exclusively with high-net-worth individuals and their families and build for them unique portfolios — no pooled funds or other proprietary products.”

The opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Nesbitt Burns Inc. (“BMO NBI”). Every effort has been made to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions that are accurate and complete. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected herein. However, neither the author nor BMO NBI makes any representation or warranty, express or implied, in respect thereof, takes any responsibility for any errors or omissions which may be contained herein or accepts any liability whatsoever for any loss arising from any use of or reliance on this report or its contents. This report is not to be construed as an offer to sell or a solicitation for or an offer to buy any securities. BMO NBI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd. (“BMO Nesbitt Burns”) will buy from or sell to customers securities of issuers mentioned herein on a principal basis. BMO Nesbitt Burns, its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns or its affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. A significant lending relationship may exist between Bank of Montreal, or its affiliates, and certain of the issuers mentioned herein. BMO NBI is a wholly owned subsidiary of BMO Nesbitt Burns Corporation Limited which is an indirect wholly-owned subsidiary of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Corp. and/or BMO Nesbitt Burns Securities Ltd. If you are already a client of BMO Nesbitt Burns, please contact your Investment Advisor for more information.