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Q2 2023 Investing Insights: Top 3 Lessons from Warren Buffett in 2023

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“The world is a great movie to watch. But you don’t want to just sleepwalk through life. The important thing to do is to look for the job you would take if you didn’t need a job. Life would be wonderful; you would jump out of bed in the morning because you are looking forward to the day. I have, for over 60 years, been able to tap dance to work just because I am doing what I love doing and I just feel very, very lucky.”

- Warren Buffett (playing himself), “Becoming Warren Buffett,” 2017

It’s that time of the year for my key takeaways from the 2023 Berkshire Hathaway Annual Shareholders Meeting held on May 6 in Omaha, Neb. Although, the meeting itself takes place on one day, it’s really a two-week event, dubbed by Buffet fans as the “Woodstock for Capitalists,” with various festivities taking place around the city.

The meeting is held at the largest conference center in Omaha, the CHI Health Center, which sits nearly 20,000. But an estimated 40,000 Berkshire investors descend on Omaha from all over the globe, also known as the pilgrimage for value investors. Needless to say, isles were standing room only and no one budges for the entirety of the meeting, despite the arduous eight-hour run time!

The fascination and engagement of the meeting is drawn from a marathon Q&A session hosted by Berkshire Chairman Warren Buffett, 92, and Vice Chairman Charlie Munger, 99. Despite their age, these two legendary investors provide just as much entertainment as knowledge with eager investors hanging on every word of wisdom.

For those unable to attend or listen in, I hope to relay at least one piece of information from the insights that resonated most with me.

Key Takeaways:

- 1) A great culture is the best succession plan as it ties in the importance of trust within a team, a solid process framework and a focus on compliance.
- 2) Despite changes and innovations in technology around the globe, the key attributes of investment success have not changed.
- 3) More than anything, Warren and Charlie’s comments relate to the keys to happiness and success, both personally and professionally.

Importance of Culture in Succession Planning

As you can imagine, given their ages, there was a lot of focus on the future of Berkshire if Charlie and/or Warren were no longer with the company. In a humorous way, during the intro video, they showed clips from each annual shareholder meeting back to 1994, where a similar question about succession was asked. And of course, their answers each year were hilarious.

It seemed like this year the tone was more serious, and they were more open about the future and their succession planning. Warren indicated that Greg Abel would succeed him, however not much would change within the company because of their strong culture. He expressed that “culture” is the best succession plan.

How do you define culture?

1. The essence of culture is dependent on trust and building the right team. For example, as long as you have strong operating managers in place, it doesn't matter who is at the top.
2. Additionally, culture relates to processes and the ways they are followed. Once you establish a framework that can easily be followed, a good business can run on autopilot.
3. Lastly, and most importantly, culture is the belief in always doing the right thing. Companies with a strong focus on the spirit of compliance engrained in their employees, not just written rules, become leaders in their fields.

Another video clip showed during the meeting was arguably the first moment when the whole world fell in love with Warren Buffett. He sat before members of Congress in 1991 and apologized of the actions of Salomon Brothers with a clear message about his beliefs:

“Lose money for the firm, and I will be understanding; lose a shred of reputation for the firm, and I will be ruthless.”

No matter how many times I watch that clip it still gives me chills.

Ultimately, I believe they were successful in reassuring investors that the future continues to be bright for Berkshire. Warren highlighted that Berkshire investors themselves share the same culture and control their destiny for investment success. If you work with people that share your views and philosophy and fit with the culture, such as most long-term Berkshire investors, there is no need to worry about investors abandoning Berkshire shares in the future.

Investing in a Changing World

Several questions were asked about enhancements in technology and adoption of artificial intelligence (AI) and what impact it can have on investing and the world as a whole.

Charlie is skeptical of AI, mentioning, “I think old-fashioned intelligence works pretty well.” And Warren chimed in, “AI can't tell jokes.” But they did also present a cautionary tale with the story of the invention of the atom bomb. The invention ultimately has changed the world and everyone in it forever. Thus, once an idea is brought to life, you can't uninvent it. Society needs to be mindful of that concept—we don't need another atom bomb.

But in terms of the future of investing, they're not worried, and certainly value investing in not dead. Regardless of new technologies and the changing world, investing will never change because it's based on one important idea: “Opportunities come from people doing dumb things.”

Here are their key lessons on investment success:

1. **Avoid emotion at all costs.** Warren and Charlie have never made an emotional decision in investing in their lives and attribute a lot of their success to it.
2. **Long-term views.** The world is very short-term focused, looking at quarterly earnings and yearly expectations. To be successful you need to look out 10 to 20 years for how the investment will perform.
3. **Take risks.** If you hit a hole-in-one every time in golf, you wouldn't play anymore. It wouldn't be fun. It's more fun to hit into the woods every once in a while, and try and get it out.
4. **Cash is not trash.** Don't underestimate the power of a cash-rich company.
5. **Know your weaknesses.** Admitting your weaknesses means you know your abilities. When you identify your limits, you make fewer mistakes than others.

Investing is a lot like life itself. You prepare (and prepare!) and try not to lose everything until something comes along that's a great investment and changes everything for the better. You make the right decision on your spouse, and you've won the game. It's imperative to ignore what others are selling you and focus on thinking it through with your own abilities and hard work.

Memorable Quotes

Aside from discussing investments, many of Warren and Charlie's comments related to life advice, and the lessons they've learned through their own colorful long lives—there's never a shortage of fun stories. And, as usual, there were few topics they didn't touch on from politics to social issues.

Here are some of the more memorable quotes from the conference that stood out to me (may be paraphrased to the best of my recollection):

Keys to Happiness and Success

- Charlie: "The key to happiness: Expect less."
- Warren: "Turn the page - reading is key to success."
- Warren: "Write your own obituary and reverse engineer it. That's how to live your life."
- Charlie: "Better to hire someone with 130 IQ who thinks he is 110 than hiring someone with 150 who thinks they're 170."
- Charlie: "We make fewer mistakes than other people. We're not so smart, but we kind of know where the edge of our smartness is."

Views on Geopolitics

- Charlie on China relations: “Not allowing free trade between U.S. and China is stupid, stupid, stupid. Both countries can be competitive, still benefit from the relationship and prosper.”
- Charlie on Russian economy: “They pretend to pay us, and we pretend to work.”
- Warren on Taiwan Semiconductor: “One of the best-managed and most important companies in the world. I don’t like its location.”
- Charlie on printing money: “When a man jumps off a tall building, it seems fun up until you hit the ground.”
- Warren on banks and debt ceiling: “Worried people are misunderstanding the facts. Just because the FDIC limit is 250,000, the U.S. government won’t let people lose money at the banks, just like they won’t ever go over the debt ceiling.”

Last, but not least, one of my favorite parts was Warren paying homage to his mentor Benjamin Graham and the most important investment book of all time that changed his life (and mine). The book, “The Intelligent Investor,” is often referred to as the stock market bible. Given its original publication in 1949, it is the oldest and most sold investment books of all time.

It has withstood the test of time and despite countless reprints, it hasn’t changed from its original philosophy. That is what you want in a company and what you get with Berkshire Hathaway, Warren Buffett and Charlie Munge. Just like the book, their philosophy, culture and corporate success will go on in perpetuity.

Don’t forget to plan your trip to Omaha for next year’s conference!

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it’s more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

Should you need help navigating client concerns, don’t hesitate to reach out to Dynamic’s Investment Management team at (877) 257-3840, ext. 4 or investmentmanagement@dynamicadvisorsolutions.com.

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