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The eternal optimist

The annual meeting for the shareholders of Berkshire Hathaway has achieved something akin to cult status. In 2014 some 44,000 shareholders descended upon Omaha to hear the wisdom of Warren Buffett and Charlie Munger, the firm's leaders. An estimated 40,000 were on hand on April 30, 2016, to get the latest information and browse the convention center for products sold by the businesses that Berkshire Hathaway owns.

The meeting has become so popular that this year, for the first time, an arrangement was made with Yahoo Finance to livestream the proceedings. A video archive of the meeting is available at this writing at <http://finance.yahoo.com/brklivestream> for those who are interested, but it may not be hosted there indefinitely. The entire video is seven hours long.

At the meeting Buffett was asked about the possible risks to the firm in the event that Donald Trump becomes President. Buffett already has endorsed Hillary Clinton, but he expressed no concern about the consequences of a Trump administration. Nor was he upset about the economic slowdown of the first quarter, when GDP growth came in at an anemic 0.5%, down from 1.4% in the final quarter of 2015. He does not believe that a recession is imminent.

In his annual letter to shareholders, published with Berkshire Hathaway's 2015 Annual Report, Buffett acknowledged that the long period of very low growth has been weighing on people, so much so that many Americans now believe that their children will not enjoy a life as successful as their own. It appears that President Obama will be the only President not to have a single year of at least 3% economic growth during his term of office. But even 2% growth is good enough. Buffett, always the optimist, explained:

"America's population is growing about .8% per year (.5% from births minus deaths and .3% from net migration). Thus 2% of overall growth produces about 1.2% of per capita growth. That may not sound impressive. But in a single generation of, say, 25 years, that rate of growth leads to a gain of 34.4% in real GDP per capita. (Compounding's effects produce the excess over the percentage that would result by simply multiplying 25 x 1.2%.) In turn, that 34.4% gain will produce a staggering \$19,000 increase in real GDP per capita for the next generation. Were that to be distributed equally, the gain would be \$76,000 annually for a family of four. Today's politicians need not shed tears for tomorrow's children.

"Indeed, most of today's children are doing well. All families in my upper middle-class neighborhood regularly enjoy a living standard better than that achieved by John D. Rockefeller Sr. at the time of my birth. His unparalleled fortune couldn't buy what we now take for granted, whether the field is – to name just a few – transportation, entertainment, communication or medical services. Rockefeller certainly had power and fame; he could not, however, live as well as my neighbors now do."

Still, this long period of low interest rates has had an effect on Berkshire Hathaway. Buffett revealed that the firm has exited the reinsurance business in Europe. A significant element of the profit from reinsurance business comes from investing the float, so interest rates that are near zero or even negative impair that profit element. Buffett said during the meeting that he doesn't expect the reinsurance business to return to its former levels of profitability for a decade or more.

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