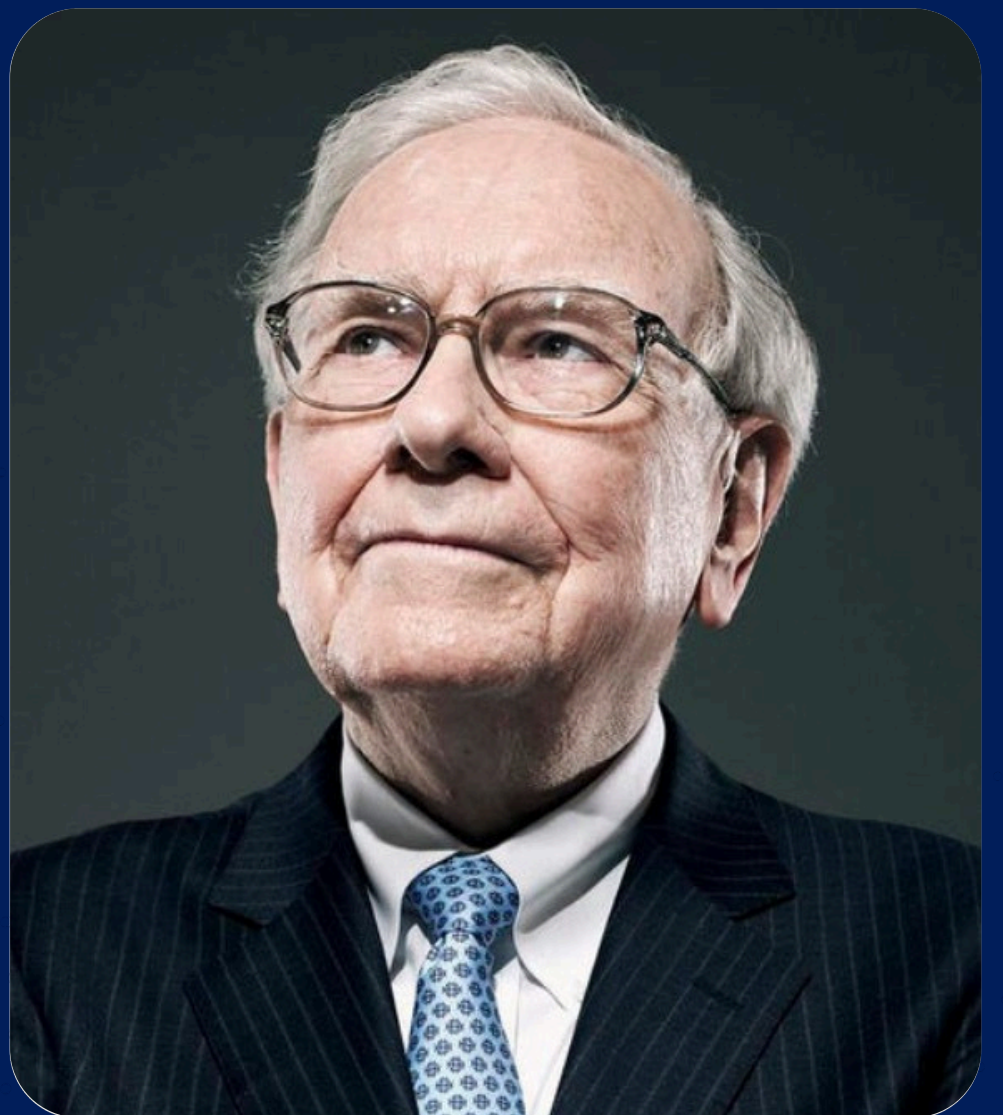


50 Years

Of Warren Buffett Wisdom



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1977

Warren Buffett's 1977 letter to Berkshire Hathaway shareholders highlights several key lessons:

These lessons reflect Buffett's approach to business evaluation, investment strategy, and the importance of considering both industry-specific challenges and ethical management practices.

Key Lessons for Long-Term Investors

1. Focus on Long-Term Performance: Emphasize long-term trends in operating earnings rather than short-term capital gains or losses.

2. Return on Equity as a Performance Measure: Assess company performance using return on equity rather than just earnings per share, as it provides a more comprehensive view.

3. Diverse Business Results: Recognize the different challenges and successes across various business sectors, such as the strong performance in insurance and difficulties in the textile industry.

4. Importance of Quality Management in Insurance: In a competitive and cyclical insurance industry, effective management is crucial for success.

5. Investment Strategy: Invest in businesses that are understandable, have favorable longterm prospects, competent management, and are priced attractively

6. Long-term Investment Outlook: Focus on long-term business performance over short-term market fluctuations.

1978

In Berkshire Hathaway's shareholder letter, Warren Buffett addresses the accounting challenges following the merger with Diversified Retailing Company.

This merger increased Berkshire's stake in Blue Chip Stamps to 58%, necessitating the full consolidation of Blue Chip's financials into Berkshire's statements.

Buffett Tackles Accounting Hurdles, Strategic Shifts in Berkshire Shareholder Letter

This results in a complex aggregation of data from varied businesses, making clear economic assessment challenging. Buffett stresses the importance of segmented financial information for better understanding and managing the diverse segments.

1978 was a successful year, with operating earnings close to the 1972 record, despite the complexities of restating 1977 figures due to the merger. The insurance sector was a key profit driver, but future returns are expected to decrease due to industry cycles. Berkshire's optimism in equity investments is highlighted, with significant undervalued stock holdings offering potential long-term gains.

The report also discusses the textile business's modest returns and plans to divest the Illinois National Bank by 1980. The successful acquisition of Associated Retail Stores is attributed to effective management. Buffett concludes by praising the dedication and ownerlike mindset of Berkshire's senior managers, which significantly contributes to the company's success.

The letter also covers detailed earnings breakdowns across various business segments, particularly insurance underwriting and investments, while expressing caution about long-term bond investments in inflationary contexts. The impending divestiture of the Illinois National Bank and Trust Company is mentioned, with Buffett praising its performance.

Finally, Buffett forecasts a potential decline in operating earnings and return on equity for 1980 due to various challenges, concluding with an emphasis on transparent communication with shareholders and long-term value creation.

1980

In the 1980 letter to Berkshire Hathaway shareholders, Warren Buffett reports an increase in operating earnings from \$36.0 million in 1979 to \$41.9 million in 1980, but a decrease in return on equity.

He stresses the importance of understanding various factors, including accounting policies and industry conditions, in evaluating the company's performance.

Buffett explains different accounting methods for company ownership interests: full consolidation for over 50% ownership, a one-line entry for 20-50%

Earnings Rise, Accounting Critiques, Inflation Challenges

ownership, and inclusion of only dividends for less than 20% ownership. Berkshire's investment in the insurance sector leads to significant earnings from companies in which they own less than 20%, affecting their reported operating earnings.

He criticizes generally accepted accounting principles, especially under high inflation, arguing that the value of retained earnings depends on their usage and resultant earnings, not on the percentage of ownership.

Berkshire's long-term performance, including all capital gains and losses, shows a substantial return on equity, mainly from market value gains of retained earnings in non-controlled holdings.

Buffett discusses the impact of high inflation rates on real investment returns, indicating how it can negate corporate investment gains. He acknowledges Berkshire's inability to solve the problem of inflation. The letter also covers industry conditions, particularly in insurance, highlighting challenges due to declining bond prices. Berkshire's operations, including challenges in the textile business and successes in retail, are reviewed. The letter concludes with a tribute to Gene Abegg, founder of Illinois National Bank, for his integrity and contributions.

1981

In the 1981 letter to Berkshire Hathaway shareholders, Warren Buffett reports a decrease in operating earnings to \$39.7 million, or 15.2% of beginning equity capital, compared to 17.8% in 1980.

A new program allowing shareholders to designate corporate charitable contributions reduced earnings by approximately \$900,000.

Buffett emphasizes the importance of noncontrolled ownership earnings, which, though not included in Berkshire's operating earnings, are expected to translate into tangible value for shareholders.

Emphasis on Shareholder Value and Charitable Contributions

Buffett discusses Berkshire's acquisition strategy, preferring to buy small portions of exceptional businesses at reasonable prices rather than paying a high price for entire companies. He critiques the motivations behind high-premium corporate takeovers, suggesting they often prioritize size and managerial ambition over economic value.

The insurance industry is predicted to face its worst year in underwriting in 1982 due to existing pricing practices and the nature of insurance contracts. Buffett highlights the challenges posed by inflation on insurance and investment decisions. Despite these challenges, GEICO, a major non-controlled business, is in a relatively strong position due to its operational efficiency.

The shareholder designated contributions program was well-received, with a high level of participation. Buffett praises the enthusiasm of shareholders in directing corporate charitable funds and provides guidance for future participation. The letter includes a breakdown of Berkshire's earnings across various segments, including insurance, textiles, and retail. Buffett concludes by acknowledging the contributions of Charlie Munger, Berkshire's Vice Chairman, to the company's management and success.

1982

In 1982, Berkshire Hathaway Inc., led by Warren Buffett, reported a decline in operating earnings to \$31.5 million, a significant drop from previous years.

This decrease was primarily due to three factors: worsening insurance underwriting results, an expansion of equity capital without proportional growth in direct business operations, and a growing investment in partially-owned companies whose earnings were partially excluded from Berkshire's reports due to accounting rules.

Earnings Dip, Buffett Eyes 'Economic' Metrics, Warns on Insurance

Buffett revised the company's performance evaluation, moving away from the previous emphasis on operating earnings/equity capital percentage. He suggested that this metric had become less relevant for Berkshire, although it remained useful for most other companies. A significant part of the letter discussed non-reported ownership earnings. Buffett argued for a concept of "economic" earnings that includes all undistributed earnings, regardless of the ownership percentage. He believed that the value of retained earnings should be judged by their effectiveness in use, not by the ownership size.

The letter also touched on the insurance industry, anticipating poor underwriting results for 1983. Buffett noted that the industry's historical profitability, largely due to quasiadministered pricing and regulatory relations, was disappearing, leading to more competitive pricing and lower profitability. Finally, Buffett addressed equity issuance for acquisitions, emphasizing Berkshire's policy of issuing shares only when receiving equivalent intrinsic business value. He concluded by highlighting the company's acquisition criteria and acknowledging the contributions of retiring managers Phil Liesche and Ben Rosner.

1983

In 1983, Berkshire Hathaway, led by Warren Buffett, saw an increase in shareholders, mainly due to its merger with Blue Chip Stamps.

Buffett emphasized the company's commitment to treating shareholders as partners and outlined its key business principles:

Buffett's Blueprint for Shareholder Partnership and Long-Term Growth

1.Shareholder Partnership: Buffett and Charlie Munger view shareholders as partners and prioritize their interests.

2. Investment by Directors: Berkshire's directors are major shareholders, aligning their interests with the company's success.

3. Growth Goal: The focus is on maximizing annual growth in intrinsic business value per share.

4. Investment Strategy: Berkshire prioritizes owning cash-generating businesses and, secondarily, acquiring stocks through insurance subsidiaries.

5. Performance Measurement: Economic performance is considered more important than reported earnings.

6. Capital Allocation: Decisions are based on potential for unreportable earnings rather than accounting consequences.

7 .Debt Management: Conservative use of debt aligns with fiduciary responsibilities.

8. Acquisition Principles: Acquisitions are made with a focus on long-term value and shareholder interests.

9. Earnings Retention: Retained earnings must increase market value correspondingly.

10. Share Issuance Policy: Shares are issued only when they garner equivalent business value.

11. Business Holdings: The preference is to retain profitable businesses and cautiously handle underperforming ones.

12. Reporting Transparency: Honest and clear reporting is emphasized for shareholder understanding.

13. Investment Secrecy: Investment details are disclosed only as required by law.

Buffett also discusses the acquisition of Nebraska Furniture Mart, highlighting its success. He provides insights into Berkshire Hathaway's corporate performance, growth in book value, and specific operations like Buffalo Evening News and See's Candies.

He explains Berkshire's stance against stock splits, emphasizing long-term value over short-term stock prices, and concludes with a summary of acquisition criteria and details about shareholder contribution programs.

1984

In his 1984 letter, Warren Buffett reports a \$152.6 million gain in Berkshire Hathaway's net worth, a 13.6% increase, which he considers mediocre compared to their 22.1% annual gain over 20 years.

He stresses the importance of intrinsic business value over book value, acknowledging that their historical 22% rate is now just history. Buffett discusses the impact of a growing capital base on returns, predicting a future annual gain of around 15%, and emphasizes the need for big ideas to achieve significant profits.

Berkshire Hathaway's Mediocre Gain, Emphasis on Intrinsic Value and Big Ideas

Buffett outlines Berkshire's investment and dividend policies, focusing on retaining earnings that yield high returns and creating market value. He admits past errors in insurance loss reserving and discusses the company's financial strength and growth prospects in the insurance industry, despite recent underperformance.

Finally, Buffett invites business sellers to consider Berkshire, outlining specific acquisition criteria, and discusses a significant investment in Capital Cities Communications. He concludes by encouraging shareholder engagement at the annual meeting and emphasizing Berkshire's cautious approach to investments and earnings retention.

1985

In 1986, Berkshire Hathaway, led by Warren Buffett, saw a significant gain in net worth, amounting to \$613.6 million or a 48.2% increase.

This exceptional growth, compared humorously to Halley's Comet by Buffett, marked a substantial achievement.

Over 21 years, Berkshire Hathaway experienced a compounded annual growth of 23.2% in per-share book value.

Berkshire Hathaway Rockets to Record Growth

However, Buffett cautioned that sustaining such growth rates was challenging due to an unaccommodating stock market and the company's increased size, which made identifying high-return opportunities more complex.

In 1985, notable activities included acquiring a major stake in Capital Cities/ABC, purchasing Scott & Fetzer, entering a significant insurance venture with Fireman's Fund, and selling General Foods stock. Buffett emphasized Berkshire's careful investment approach, focusing on retaining earnings to enhance market value.

He also encouraged potential sellers to consider Berkshire for acquisitions, setting clear criteria for such ventures. Buffett concluded by highlighting the importance of shareholder involvement, discussing the company's charitable contributions program, and inviting shareholders to the annual meeting.

1986

In 1986, Berkshire Hathaway's net worth increased by \$492.5 million, a 26.1% growth. Over 22 years, the per-share book value rose from \$19.46 to \$2,073.06, growing at 23.3% annually.

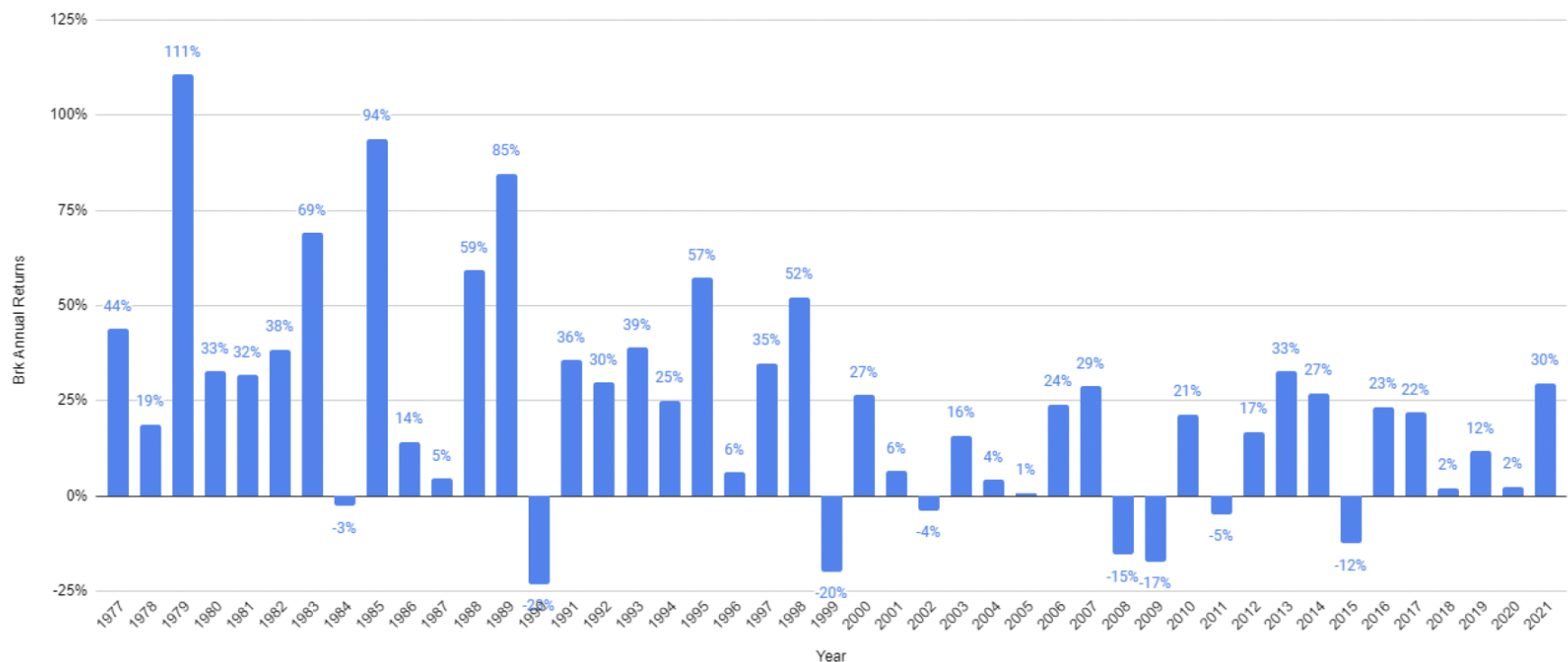
This growth is attributed to the excellent performance of key managers in major operating businesses, who improved earnings significantly with minimal capital investment, creating substantial economic value not reflected in net worth or book value. Despite this success, Warren Buffett acknowledges his shortcomings in effectively deploying the generated capital.

\$492.5 Million Growth, Strategy Shifts, and Tax Reform Challenges

Buffett and Charlie Munger focus on attracting and retaining exceptional managers and allocating capital. Their strategy is to hire individuals of high caliber, following David Ogilvy's philosophy of building a company of giants.

The 1986 Tax Reform Act introduced changes that negatively impact Berkshire, especially in property/casualty insurance operations. The tax rate on corporate ordinary income will decrease from 46% to 34% in 1988, but the overall financial effect for Berkshire is negative. Additionally, Berkshire purchased a corporate jet, acknowledging the luxury and high cost associated with it. The shareholder-designated contributions program continued successfully, and shareholders are encouraged to participate in future meetings.

In 1987, Berkshire Hathaway's net worth increased by \$464 million (19.5%), with per-share book value rising from \$19.46 to \$2,477.47 over 23 years. This growth was driven by remarkable businesses run by exceptional managers. Berkshire's approach emphasizes per-share business value over book value, recognizing the divergence these measures can have, as seen in companies like LTV and Belridge Oil.



Despite challenges from the 1986 Tax Reform Act impacting insurance operations, Berkshire's financial strength remains robust. Buffett and Munger's investment philosophy centers on acquiring businesses with strong, consistent earning power, simple operations, and capable management, avoiding high debt. This long-term, value-based investing strategy has proven effective, even amid market volatility and irrational behavior by professional investors.

Berkshire's shareholder-designated contributions program continues, encouraging direct share registration for participation. The annual meeting offers shareholders a forum for indepth understanding of Berkshire's operations and investment decisions. Buffett concludes by underscoring the importance of wise capital allocation and maintaining a focus on sustainable business growth and value creation.

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Net Worth Soars by \$464 Million, Per-Share Value Surges to \$2,477.47 Over 23 Years

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1988

In 1988, Berkshire Hathaway saw a net worth increase of \$569 million, a 20% gain, continuing its 23% annual growth in per-share book value since 1965.

Buffett emphasizes the significance of intrinsic business value over book value, with Berkshire's intrinsic value surpassing its book value. However, he cautions about different current conditions impacting future growth, including a challenging stock market, higher corporate taxes, expensive business acquisitions, and less favorable situations in major investments like Capital Cities/ABC, GEICO, and The Washington Post Company.

Emphasizes Intrinsic Business Value Over Book Value Amidst Market Challenges

Berkshire faces the challenge of a growing capital base, making substantial profits necessary for maintaining high returns. The company's standout businesses, particularly the "Sainted Seven," are crucial for achieving future targets. Buffett discusses significant accounting changes in 1988 and the limitations of GAAP, advocating for more informative financial reporting for shareholders.

The letter also covers Berkshire's selective and long-term focused arbitrage strategy, its recent New York Stock Exchange listing aimed at reducing transaction costs and stabilizing share prices, and the continuation of its shareholder-designated contributions program. Buffett concludes by inviting acquisition proposals that meet specific criteria and encouraging shareholder participation in the upcoming annual meeting.

1989

In 1989, Berkshire Hathaway's net worth increased by \$1.515 billion, marking a 44.4% gain.

Over 25 years, its per-share book value grew at a 23.8% annual rate.

However, intrinsic value, not book value, is emphasized, with Berkshire's intrinsic value now significantly exceeding its book value. The portfolio's high-valued equity securities mean future value increases might be less sharp.

Record \$1.515 Billion Increase in Net Worth, Emphasizing Intrinsic Value and Sustainable Growth Challenges

Berkshire faces challenges in sustaining high growth due to its large capital base, as high growth rates are unsustainable over long periods. The company's investment philosophy focuses on businesses with consistent earnings, good returns on equity, minimal debt, and trustworthy management.

The 1989 tax charge was approximately \$712 million, with a significant deferred portion. Berkshire benefits from the retained earnings of its investees, advocating a "look-through" approach to assess earnings.

Reflecting on past mistakes, Buffett emphasizes learning from experience, highlighting the importance of investing in businesses with both admirable management and strong economic prospects. The letter concludes with an invitation for acquisition proposals and details about the annual meeting.

1990

Buffett's Insights on Growth Amidst Market Stagnation

Warren Buffett's 1990 letter to Berkshire Hathaway shareholders discusses a challenging year where the company's net worth grew by \$362 million, or 7.3%.

Despite economic difficulties, Buffett reports a 23.2% annual growth in per-share book value over 26 years. He highlights the stagnant market value of major investments like Capital Cities/ABC, Coca-Cola, GEICO, and Washington Post, influenced by industry changes.

Buffett emphasizes the challenge of maintaining high growth rates as Berkshire's equity base expands, aiming for a 15% annual increase in intrinsic value. He discusses the relationship between market prices, intrinsic value, and shareholder returns, advocating for a stock price that mirrors intrinsic value.

The letter includes insights into Berkshire's business operations, particularly its insurance segment and strategy for underwriting major catastrophes, balancing risks and rewards. Buffett also reflects on investment strategies, focusing on long-term value. He expresses regret over the USAir investment, acknowledging industry issues and integration challenges post-merger.

The letter ends with a call for business acquisitions fitting specific criteria, updates on the shareholder contributions program, and details about the annual meeting.

1991

Berkshire Hathaway's Success

In 1991, Berkshire Hathaway's net worth increased by \$2.1 billion, a 39.6% growth but Warren Buffett warns that maintaining such a high growth rate is challenging as the company's capital base expands.

This growth was significantly boosted by rises in the price-earnings ratios of Coca-Cola and Gillette stocks. Buffett reflects on his decision to become Interim Chairman of Salomon Inc., confident in Berkshire's management to operate effectively in his partial absence.

He admits to a costly omission in not buying more shares of Fannie Mae, resulting in a missed gain of approximately \$1.4 billion. Berkshire acquired H. H. Brown, a profitable shoe company, and made its first major international investment in Guinness PLC. Buffett discusses insurance operations, focusing on underwriting and generating float. He notes a shift in media economics, leading to reduced intrinsic values of media investments.

The letter celebrates See's Candies' 20th anniversary, emphasizing its profitability and growth. Fixed-income investments saw changes, particularly challenges with USAir in the struggling airline industry. The letter concludes with details about Berkshire's upcoming annual meeting and Buffett's continued commitment to the company.

1992

In 1992, Berkshire Hathaway's per-share book value grew by 20.3%, continuing its long-term annual growth rate of 23.6% since 1964.

The company's net worth increased by \$1.52 billion, largely through earnings and portfolio securities appreciation. A significant part of the share count rise was due to convertible debentures being converted into shares.

Warren Buffett emphasizes Berkshire's cautious approach to issuing shares, ensuring they receive fair value in return.

Berkshire Hathaway's Performance: Buffett's Caution, Growth, and Accounting Advocacy

He underscores his acquisition strategy, focusing on businesses with strong long-term prospects and competent management, favoring purchases in the open market.

Berkshire's insurance operations experienced variability, influenced by market volatility and substantial equity holdings. Buffett critiques common accounting practices for stock options, advocating for recognizing them as an expense.

Additionally, Buffett discusses the introduction of new accounting rules for deferred taxes and post-retirement health benefits, promoting a more realistic approach to corporate accounting. He also mentions management changes and the shareholder-designated contributions program, considering an increase in its growth rate. Lastly, he invites shareholders to the annual meeting, promising engaging discussions and visits to Berkshire businesses.

1993

In 1993, Berkshire Hathaway's per-share book value increased by 14.3%, continuing a longterm growth trend under Warren Buffett's management.

Net worth rose by \$1.5 billion, influenced by accounting and tax changes. Buffett highlights the distinction between book value and intrinsic value, noting Berkshire's focus on the latter. The company's market price significantly outperformed its intrinsic value, increasing by 39%.

Berkshire Hathaway's Strong Growth Trend and Investment Philosophy Under Buffett's Leadership

Berkshire's investment strategy focuses on companies with strong, durable competitive advantages, as exemplified by significant holdings in Coca-Cola, GEICO, and The Washington Post Company. Buffett advocates for concentrated investments in understandable businesses rather than broad diversification.

Corporate governance at Berkshire is tailored to long-term shareholder interests, with a unique approach to philanthropy where shareholders direct charitable contributions. Personal updates include the 100th birthday of Rose Blumkin of Nebraska Furniture Mart and retirements of key executives like Katharine Graham and Don Keough. The annual shareholders meeting plans are mentioned, reflecting Berkshire's business and investment ethos.

1994 Growth, Caution, and Value Creation

In 1994, Berkshire Hathaway's net worth grew by \$1.45 billion, a 13.9% increase.

Over 30 years under current management, the per-share book value has compounded annually at 23%. Warren Buffett and Charlie Munger, though optimistic about Berkshire's investment strategy, caution that future performance might not mirror past success.

They focus on acquiring businesses with sound economics and effective management at reasonable prices. Despite a substantial net worth of \$11.9 billion, they face challenges in making significant new investments due to Berkshire's size, targeting opportunities of at least \$100 million.

They emphasize understanding intrinsic value over book value and acknowledge some investment missteps, particularly with Cap Cities and USAir. The insurance operations, notably the profitable "super-cat" business, are a major contributor to Berkshire's value, despite potential volatility.

Buffett and Munger commit to aligning their interests with shareholders and maintaining transparency in compensation practices. The letter concludes with details on the annual meeting and a commitment to value creation for shareholders.

1995

\$5.3B Gain in '95, Record Growth Continues

In 1995, Berkshire Hathaway, led by Warren Buffett, saw a net worth increase of \$5.3 billion, a 45% gain.

This growth was attributed to a booming stock market, which made it a particularly profitable year. Over 31 years, Berkshire's per-share book value has grown from \$19 to \$14,426, compounding annually at 23.6%.not mirror past success.

Key acquisitions included Helzberg's Diamond Shops, R.C. Willey Home Furnishings, and notably, GEICO. These acquisitions doubled Berkshire's revenues without significantly increasing debt or diluting shares. Buffett and Charlie Munger focus on acquiring companies with strong economic characteristics and excellent management, either entirely or partially through the stock market.

Berkshire's insurance operations, particularly the super-catastrophe insurance business, were profitable, though Buffett acknowledges the potential for future large losses. The report highlights significant common stock investments in companies like American Express, Coca-Cola, and Gillette, with Buffett reflecting on past investment decisions.

To make Berkshire's stock more accessible and counter emerging unit trusts mimicking its portfolio, a recapitalization plan was proposed to create two classes of stock, A and B. The B shares will offer lower investment thresholds and be listed on the NYSE. The annual shareholder meeting is emphasized as a key event for direct communication and shareholder engagement.

1996

Buffett's Billion-Dollar Growth and Strategic Investments

In 1996, Berkshire Hathaway, led by Warren Buffett, saw a net worth increase of \$6.2 billion (36.1%).

However, per-share book value growth was 31.8% due to increased shares from acquiring FlightSafety International and issuing Class B shares. Over 32 years, per-share book value rose from \$19 to \$19,011, at a 23.8% annual rate.

Berkshire's investment strategy focused on acquiring economically strong companies with excellent management. Key investments included American Express, Coca-Cola, and Gillette.

The insurance operations, especially in super-catastrophe insurance, were profitable, though future large losses were acknowledged.

Berkshire created Class A and B shares to prevent unit trusts from imitating its portfolio and make its stock more accessible. The Class B shares were aimed at smaller investors and listed on the NYSE.

The annual shareholder meeting was emphasized as crucial for engagement. Buffett stressed intrinsic value over book value and outlined the company's principles in the Owner's Manual. The report highlighted the performance of Berkshire's insurance businesses, investments, and acquisitions, including gains in various sectors and strategic financial moves like issuing Class B shares and Berkshire notes. The report concluded with details on the annual meeting and shareholder contributions program.

1997

\$8B Increase, Focus on Long-Term Value

In 1997, Berkshire Hathaway's net worth increased by \$8.0 billion, marking a 34.1% rise in per-share book value. Over 33 years, per-share value grew from \$19 to \$25,488, a 24.1% annual rate.

This growth, however, isn't seen as a triumph as market conditions heavily influenced returns. Berkshire's performance was compared to the S&P Index, acknowledging that market conditions, rather than mere managerial skill, often dictate investment success.

Significant in 1997 was Berkshire's investment portfolio, particularly in American Express, Coca-Cola, and Gillette, showing notable gains. The insurance sector, led by GEICO, was a strong performer, although the nature of the insurance business, especially in supercatastrophe insurance, meant fluctuating results.

The annual meeting was highlighted as an essential event for shareholder communication.

The report reiterated Berkshire's investment philosophy, focusing on intrinsic value and longterm growth, rather than short-term market trends. This approach, guided by Buffett's principles, emphasized disciplined investing and understanding the underlying value of businesses and investments.

1998

Buffett's Caution Amidst \$25.9 Billion Gain

In 1998, Berkshire Hathaway reported a significant increase in net worth, rising by \$25.9 billion, marking a 48.3% gain in per-share book value.

However, Warren Buffett, the Chairman, cautioned that this figure, while impressive, was inflated due to acquisitions made through stock issuances, which artificially boosted the book value.

He stressed the importance of focusing on intrinsic value over book value or accounting earnings.

Berkshire's major acquisitions included General Re, a leading reinsurance company, and Executive Jet, a private jet service provider. Despite these strategic acquisitions, Buffett noted challenges in Berkshire's equity portfolio due to underperformance in some major investee companies.

Buffett critically addressed corporate America's accounting practices, especially the treatment of stock options and restructuring charges, arguing that these often result in misleading earnings reports. He advocated for more honest and transparent accounting standards. The letter also highlighted Berkshire's charitable contributions, amounting to \$16.9 million in 1998 through their shareholder-designated program. Buffett concluded by inviting shareholders to the annual meeting, which combines business discussions with entertainment, offering a unique opportunity for investor engagement.

Overall, the letter depicted a financially successful year for Berkshire, but with a nuanced view of the quality of those earnings and a critique of broader corporate accounting issues.

1999

Buffett Acknowledges Shortcomings, Eyes Long-Term Growth

In 1999, Berkshire Hathaway's net worth grew by \$358 million, a 0.5% increase in per-share book value, representing the weakest performance in both absolute and relative terms compared to the S&P 500 under Warren Buffett's tenure

Buffett attributed this underperformance to his own shortcomings in capital allocation, particularly the poor results from Berkshire's equity portfolio.

Despite 1999's setbacks, Buffett and Charlie Munger remained optimistic about outperforming the S&P in the long term.

Major developments included acquisitions of Jordan's Furniture and a significant stake in MidAmerican Energy, both completed without issuing Berkshire stock. The report discussed intrinsic value, emphasizing prudent investment and operational strategies, while highlighting challenges and successes within Berkshire's insurance operations, especially at GEICO and General Re.

Buffett expressed caution about the high valuation of equities, particularly technology stocks, due to a lack of understanding of their long-term prospects. He criticized the prevalent trend of share repurchases when not justified by a company's intrinsic value. The report also detailed Berkshire's shareholder-designated contributions program and outlined plans for the 2000 annual meeting, which included shareholder-exclusive events and various activities.

2000 Growth, Caution, and Philanthropy

In 2000, Berkshire Hathaway's net worth grew by \$3.96 billion, a 6.5% increase in per-share book value, marking significant growth since Warren Buffett's management began.

Major accomplishments included acquiring eight businesses for about \$8 billion, primarily in cash, enhancing Berkshire's portfolio without incurring debt or substantially diluting shares.

Buffett emphasized the importance of intrinsic value and expressed caution about high equity valuations, expecting moderate future returns from Berkshire's fully priced holdings.

Challenges faced included slowing growth at GEICO and a portfolio seen as only mildly attractive. Buffett and Charlie Munger continued their strategy to modestly outperform the S&P 500, acknowledging the inevitability of aging but with a humorous take on their relative youthfulness in corporate terms.

The report also discussed the importance of transparent reporting, criticized selective disclosure, and warned against CEOs making ambitious growth predictions, which can lead to unrealistic expectations and unethical practices. The shareholder-designated contributions program donated \$16.9 million, contributing to a 20-year total of \$164 million.

Concluding, Buffett reflected on his 50-year journey since Ben Graham's class at Columbia, acknowledging Graham's profound influence on his investment philosophy.

2001

In 2001, Berkshire Hathaway's net worth decreased by \$3.77 billion, marking a 6.2% drop in per-share book value.

However, since 1965, per-share book value has grown from \$19 to \$37,920. Buffett notes that intrinsic value outpaced book value over this period, despite a slight decline in 2001.

Weathering 2001's Downturn, Emphasizing Ethical Values, and Strategic Acquisitions

He emphasizes the importance of relative, rather than absolute, performance, acknowledging recent underperformance in Berkshire's portfolio, particularly due to General Re's underwriting errors and poor equity performance post-9/11.

Buffett criticizes the unethical practices in corporate America, highlighted by scandals like Enron, where executives profited while shareholders suffered. He assures shareholders that his economic results will align with theirs, with no superior gains at their expense. Berkshire's 2001 acquisitions, including Shaw, Johns Manville, and others, were cash purchases, enhancing value without share dilution. The company's investment approach is cautious, with modest stock market returns expected in the coming decade. Buffett also details Berkshire's involvement in "junk" bonds and major transactions like FINOVA Group. The letter concludes with details of the annual meeting, reflecting the unique culture and enduring success of Berkshire Hathaway.

2002

\$6.1B Boost, Buffett's Caution, and Shareholder Focus

In 2002, Berkshire Hathaway reported a \$6.1 billion increase in net worth, boosting per-share book value by 10%. Over 38 years, per-share book value grew from \$19 to \$41,727, a 22.2% annual compound rate.

Key achievements in 2002 included strong performance from non-insurance businesses, an increase in insurance float to \$41.2 billion, acquisitions of new businesses with exceptional economic characteristics, and marketable securities outperforming most indices. Buffett warns about over-reliance on EBITDA and misleading accounting practices.

He emphasizes the importance of honest, shareholder-oriented management and criticizes corporate practices that prioritize executive compensation over shareholder interests. The letter also discusses the role of audit committees and suggests four key questions they should ask auditors to ensure financial integrity.

Berkshire's shareholder-designated contributions program donated \$16.5 million, bringing the 22-year total to \$197 million. The annual meeting is detailed, highlighting special events and emphasizing Berkshire's commitment to its unique business culture and shareholder interests.

2003

Berkshire Hathaway's 21% Growth Underlines Buffett's Emphasis on Intrinsic Value

In 2003, Berkshire Hathaway, led by Warren Buffett, saw a net worth increase of \$13.6 billion, marking a 21% growth in per-share book value.

This continued a trend of significant annual growth since 1964. Buffett highlights the importance of intrinsic value over book value, noting Berkshire's evolution from a textile business to a diverse conglomerate.

Despite using book value as a conservative measure, it's less relevant for comparison with the S&P 500, as Berkshire's portfolio has shifted from primarily equities to diverse holdings.

Berkshire's performance against the S&P is crucial, with Buffett stressing that underperformance would be a management failure. Berkshire's culture promotes freedom and intelligent decision-making, though Buffett admits to occasional errors. The company's diverse operations include insurance, utilities, finance, manufacturing, service, and retail. The insurance segment is significant for its cost-effective float and the utility sector, particularly MidAmerican Energy, shows stability.

The finance sector encompasses various activities, including a challenging unwinding of Gen Re Securities. Despite successes and challenges, Berkshire's acquisitions have generally led to gains in per-share earnings.

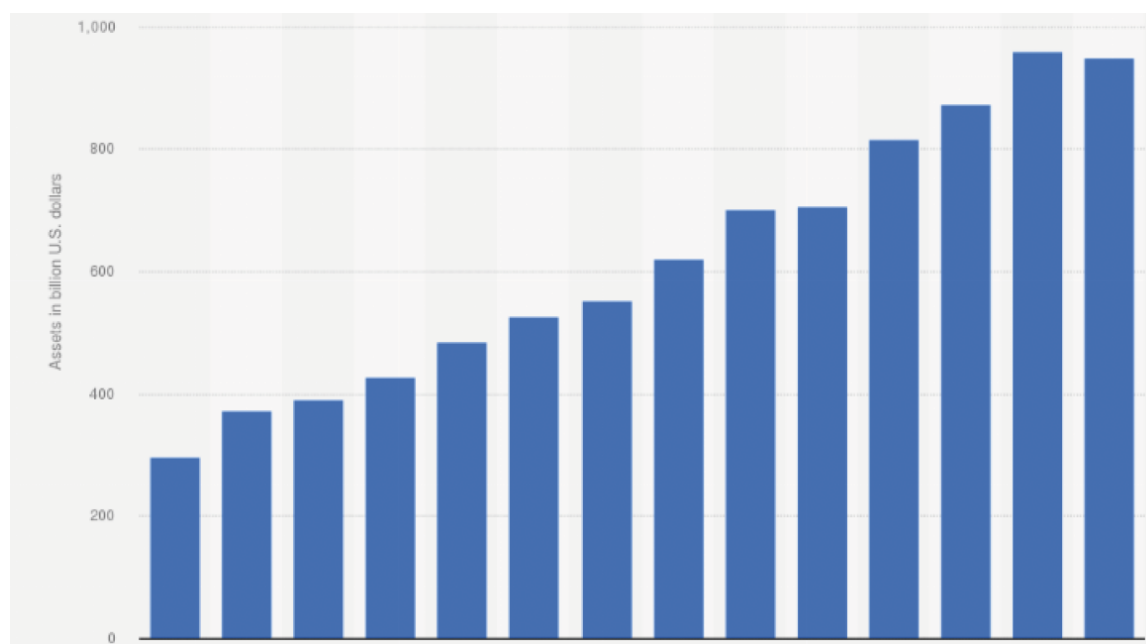
2004 From Textiles to Diversified Powerhouse

In 2004, Berkshire Hathaway's net worth increased by \$8.3 billion, enhancing Class A and B stock's book value by 10.5%. Over 40 years, the book value grew from \$19 to \$55,824, an annual compound rate of 21.9%.

Berkshire evolved from a struggling textile business into a diversified enterprise with an intrinsic value exceeding its book value. The company's performance compared to the S&P 500 is crucial, and recent diversification has reduced the stock market's impact on Berkshire's net worth.

The company's culture prioritizes intelligent decision-making and acknowledges occasional errors. Key segments include insurance, utilities, finance, manufacturing, service, and retail. Insurance, especially through cost-effective float, and utilities, highlighted by MidAmerican Energy, are notable contributors. The finance sector, particularly the unwinding of Gen Re Securities, faced challenges. Buffett discusses U.S. trade policies, their impact on the dollar, and Berkshire's engagement in foreign currency contracts.

He emphasizes the long-term effects of the U.S. trade deficit on the economy and concludes with details about the annual shareholders' meeting, underscoring the importance of shareholder engagement and decision-making in corporate governance.



2005

\$5.6 Billion Net Worth Increase and Strategic Acquisitions

In 2005, Berkshire Hathaway's net worth increased by \$5.6 billion, boosting the book value of Class A and B shares by 6.4%. Over 41 years, the book value grew from \$19 to \$59,377, a 21.5% annual compound rate.

Berkshire had a strong year, initiating five acquisitions and experiencing growth in most subsidiaries.

Despite Hurricane Katrina's record losses, insurance operations, led by GEICO, performed well. The letter emphasizes the importance of estimating Berkshire's intrinsic value, a challenging task due to its diverse earnings streams and massive investment holdings.

The letter discusses the growth rates of Berkshire's investments and non-insurance businesses, noting a shift towards business acquisitions. Major acquisitions in 2005 include Medical Protective Company, Forest River, Business Wire, Applied Underwriters, and PacifiCorp. The letter also addresses Berkshire's strategy in insurance, emphasizing the significance of "float" and its cost.

Other topics include regulated utility businesses, finance and financial products, and manufacturing, service, and retailing operations. The letter criticizes excessive executive compensation and shares insights on America's trade imbalances and investment returns. It concludes with details about management succession and the annual shareholders' meeting.

2006

Berkshire's Surge, Strategy, and Philanthropy

Warren Buffett's 2006 letter to Berkshire Hathaway shareholders reports a substantial increase in the company's net worth, primarily driven by the insurance sector's favorable conditions and strong performance of key businesses like GEICO.

He emphasizes the sustained growth in book value over 42 years, underlining Berkshire's success under his and Charlie Munger's stewardship. Buffett acknowledges the role of luck in 2006's success, particularly due to a mild hurricane season benefiting insurance operations.

Highlighting Berkshire's business strategy, Buffett stresses the importance of acquiring large, well-managed companies. The letter notes significant achievements, including the acquisition of ISCAR and growth in non-insurance sectors. Buffett also discusses his philanthropic commitments, planning to donate most of his Berkshire shares to charity.

He critiques the flawed executive compensation systems and the mispricing of derivatives in financial markets, advocating for rational investment approaches and managerial competence. The letter concludes with an invitation to the annual shareholder meeting, a unique event combining business discussions with various entertainment and shopping experiences.

This letter reflects Buffett's candid insights into Berkshire's operations and his broader views on business, investment, and philanthropy.

2007

Berkshire Hathaway's Robust Growth Amid Market Challenges

In 2007, Berkshire Hathaway's net worth grew by \$12.3 billion, raising the per-share book value of its stocks by 11%. Since 1964, the per-share value has compounded annually at 21.1%.

Despite the housing market downturn affecting some Berkshire businesses, the majority of its 76 subsidiaries performed well. Financial institutions faced significant challenges due to weak lending practices, but Berkshire's acquisitions, TTI and Iscar, excelled.

The insurance sector, a key component of Berkshire, had an excellent year, though future profit margins are expected to decline. The investment portfolio, valued at \$141 billion, included major stakes in companies like American Express, Coca-Cola, and Wells Fargo. Foreign currency investments, particularly in the Brazilian real, were also profitable.

Berkshire's report highlighted issues with public pension promises and the unsustainability of the U.S. trade deficit, advocating for balanced trade policies. Succession plans for both the CEO and investment management roles were firmly in place, with potential candidates identified.

Criticism was leveled at unrealistic pension cost assumptions by public companies and the importance of accurate financial reporting was underscored. The upcoming annual shareholder meeting was announced, featuring various activities and shopping opportunities. Warren Buffett and Charlie Munger expressed gratitude for their positions and the exciting future of Berkshire Hathaway.

2008 Optimism Amid Financial Turmoil

Warren Buffett, the renowned investor and chairman of Berkshire Hathaway Inc., shared his annual letter to shareholders in 2008, addressing a challenging year for the company and the global financial markets.

During this tumultuous year, Berkshire Hathaway experienced a significant decrease in net worth, resulting in a 9.6% decline in the per-share book value of its Class A and Class B stock. This decline was primarily attributed to the turmoil in the financial markets, including the global credit crisis and economic downturn.

Despite the difficulties faced in 2008, Buffett expressed his unwavering confidence in the long-term prospects of Berkshire Hathaway. He highlighted the historical resilience of the American economy and its ability to overcome adversity. Buffett emphasized that Berkshire Hathaway's primary goal was to maintain financial strength, strengthen its competitive advantages in various businesses, diversify its sources of revenue, and nurture exceptional managers.

In his letter, Buffett also discussed the performance of Berkshire Hathaway's different business segments, including insurance, utilities, and manufacturing. He acknowledged that there were investment mistakes made during the year but remained committed to the principles of long-term value creation and acquiring high-quality businesses.

Overall, Warren Buffett's 2008 letter to shareholders conveyed a message of optimism, resilience, and a long-term perspective in the face of challenging economic conditions.

2009

\$21.8 Billion Gain, Focus on Intrinsic Value, and Future Prospects

In Warren Buffett's annual letter to the shareholders of Berkshire Hathaway Inc. for the year 2009, he highlighted several key points.

Firstly, he noted that the company had achieved a gain in net worth of \$21.8 billion during the year, resulting in a 19.8% increase in per-share book value for both Class A and Class stock.

Buffett emphasized the consistent growth in book value over the past 45 years, compounding at a rate of 20.3% annually since present management took over.

Buffett also discussed the recent acquisition of Burlington Northern Santa Fe (BNSF) and the importance of shareholders understanding Berkshire's operations, goals, and culture. He reiterated the economic principles that guide the company, which were outlined in the annual report.

Regarding performance measurement, Buffett explained the use of per-share book value as a tracking device for changes in intrinsic value, despite its limitations. He mentioned that using market prices would show a slightly better performance, but Berkshire's focus remained on long-term intrinsic value.

Buffett shared insights into what Berkshire doesn't do, including avoiding businesses with unpredictable futures and not becoming dependent on external financing. He highlighted the importance of maintaining financial strength and independence. The letter also covered Berkshire's insurance operations, with a focus

on GEICO, General Re, and smaller insurance businesses. It emphasized the growth of float and underwriting profitability.

Lastly, Buffett discussed Berkshire's regulated utility business, emphasizing the importance of providing reliable service and investing for the future while maintaining a fair return for shareholders. He mentioned the company's willingness to enter capital-intensive businesses as long as they offer reasonable returns on investment, and he expressed optimism about Berkshire's future prospects.

2010 Growth, Strategy, and Succession

In his 2010 letter to Berkshire Hathaway shareholders, Warren Buffett reports a 13% increase in per-share book value for Class A and Class B stock, marking significant growth since 1964.

The acquisition of Burlington Northern Santa Fe (BNSF) railroad is highlighted as a key achievement, substantially enhancing Berkshire's earning power and offering environmental and cost advantages over trucking. Buffett emphasizes the importance of a balanced trade policy and prudent financial management, particularly criticizing the misuse of leverage in finance and highlighting

the risks involved. Buffett reassures shareholders about succession plans for both the CEO and investment management roles, underscoring Berkshire's solid strategy and leadership continuity.

He criticizes the overemphasis on net income in financial reporting, explaining that it can be misleading due to the accounting treatments of derivatives and investments.

The letter also invites shareholders to the annual meeting, promising various activities and opportunities to engage with Berkshire's subsidiaries. Buffett concludes by expressing gratitude to his corporate office staff for their efficiency and support, which contributes significantly to Berkshire's success and smooth operation.

2011

Warren Buffett's 2011 letter to Berkshire Hathaway shareholders highlights a 4.6% increase in per-share book value, reflecting significant growth over 47 years.

Buffett and Charlie Munger, the Vice Chairman, are content with the company's 2011 progress, emphasizing effective succession planning and the top-notch performance of the Board of Directors in this area.

The letter outlines key developments: Todd Combs and Ted Weschler joining as investment managers, the strategic acquisition of Lubrizol, and

4.6% Increase in Book Value, Key Investments, and Challenges Addressed

record earnings from major non-insurance businesses like BNSF, Iscar, Lubrizol, Marmon Group, and MidAmerican Energy. Significant investments in marketable securities, particularly in Bank of America and IBM, are also noted. Buffett addresses challenges, including a substantial loss from investments in Energy Future Holdings due to declining gas prices, acknowledging a misjudgment in this investment. Additionally, setbacks from called-away fixed-income investments and an overestimated recovery in the housing market are discussed.

Highlighting Berkshire's investment philosophy, Buffett favors investments in productive assets (businesses, farms, real estate) over currency-based or unproductive investments, focusing on long-term value creation. The letter also extends an invitation to the annual shareholders' meeting, promising engaging activities and special promotions from Berkshire subsidiaries. In conclusion, Buffett praises the Berkshire corporate office staff for their efficiency and contributions, underscoring their role in the company's success and encouraging shareholders to recognize their efforts.

2012

In Berkshire Hathaway's 2012 letter, Warren Buffett reports a substantial gain of \$24.1 billion for shareholders, though he acknowledges underperformance compared to the S&P 500.

Buffett emphasizes long-term value creation over short-term metrics, maintaining a focus on consistent performance.

The letter discusses Berkshire's robust cash position, detailing a significant investment in H.J. Heinz. Buffett notes the company's ongoing search for substantial acquisitions and highlights the successes of its

Long-Term Focus, Strong Performance, and Strategic Investments

non-insurance businesses, which collectively earned over \$10 billion pre-tax in 2012. The insurance operations are praised for providing significant investment capital.

Buffett commends investment managers Todd Combs and Ted Weschler for outperforming the S&P 500 and notes their growing importance in managing Berkshire's portfolio. The performance of Berkshire's "Big Four" investments - American Express, Coca-Cola, IBM, and Wells Fargo - is highlighted, with an optimistic outlook on their future contributions. The letter addresses Berkshire's dividend policy, explaining the preference for reinvesting earnings rather than paying dividends, arguing that this approach maximizes long-term shareholder value.

Buffett concludes by inviting shareholders to the annual meeting, describing it as an engaging and interactive event. He expresses deep gratitude to Berkshire's corporate staff and operating managers for their dedication and outstanding performance, highlighting the collective effort behind Berkshire's success.

2013

Warren Buffett's 2013 letter to Berkshire Hathaway shareholders reports a significant gain in net worth of \$34.2 billion, highlighting the company's strong performance despite economic challenges.

He discusses the intrinsic value of Berkshire, which he emphasizes as exceeding its book value, a trend that has widened over recent years. Buffett explains their cautious approach towards share repurchases, stating they only buy back when prices are below 120% of book value.

\$34.2B Gain, Strategic Acquisitions, and Long-Term Value

The letter details strategic acquisitions made in 2013, including NV Energy and a major stake in H.J. Heinz, underscoring Buffett's confidence in their long-term prosperity. He also mentions the robust performance of Berkshire's non-insurance businesses, collectively earning a notable pre-tax profit, with particular focus on renewable energy investments by MidAmerican Energy.

Buffett praises the management of Berkshire's investment portfolio by Todd Combs and Ted Weschler, who outperformed the S&P 500. He outlines Berkshire's significant equity investments, especially in the "Big Four": American Express, Coca-Cola, IBM, and Wells Fargo, and touches on their dividend policies and investment philosophies, emphasizing long-term value creation.

Concluding the letter, Buffett invites shareholders to the annual meeting, highlighting its educational and engaging nature. He expresses gratitude to Berkshire's employees and managers, attributing the company's success to their efforts. The letter reflects a positive outlook for Berkshire Hathaway, reaffirming its commitment to strategic growth and shareholder value.

2014

In the 2014 Berkshire Hathaway shareholder letter, Warren Buffett highlights the company's annual increase in net worth by \$18.3 billion, marking a consistent growth under his management for over 50 years.

He emphasizes the importance of intrinsic business value over book value, noting a strategic shift from primarily holding securities to owning and operating businesses, which significantly widened the gap between intrinsic value and book value.

\$18.3B Net Worth Surge, Embracing Intrinsic Value

A key achievement was the success of the "powerhouse Five," Berkshire's major noninsurance businesses, which collectively earned a record \$12.4 billion pre-tax in 2014.

Despite these successes, Buffett acknowledges challenges faced by BNSF Railway, leading to a planned \$6 billion investment to improve service.

Buffett reflects on Berkshire's insurance operations, highlighting 12 consecutive years of underwriting profit and a substantial increase in its float, contributing to the company's investment income. The letter also touches on Berkshire's acquisition strategy, focusing on profitable businesses with strong management. Buffett candidly discusses past investment mistakes, using them to refine Berkshire's approach.

Concluding, Buffett invites shareholders to the annual meeting, praising Berkshire's employees and management for their contributions to the company's success. He reiterates his commitment to long-term value creation and strategic growth.

2015

In 2015, Berkshire Hathaway's net worth increased by \$15.4 billion, raising per-share book value by 6.4%. Over 51 years, under Warren Buffett's leadership, per-share book value grew from \$19 to \$155,501, averaging a 19.2% annual growth rate. Initially, Berkshire's value closely matched its intrinsic value, heavily invested in marketable securities.

However, since the 1990s, focus shifted towards owning businesses, diminishing the relevance of balance-sheet figures. Buffett acknowledges both investment successes and errors, pointing out the asymmetry in accounting standards that widens the

\$15.4B Net Worth Increase, Buffett Advocates for Share Repurchases

gap between intrinsic value and book value. He suggests Berkshire's intrinsic value significantly exceeds its book value, advocating for share repurchases if prices drop to 120% of book value.

The letter highlights the "Powerhouse Five," a group of Berkshire's largest non-insurance businesses, including BNSF railway. These businesses collectively earned \$13.1 billion in 2015, with BNSF alone generating a record \$6.8 billion pre-tax income. The acquisition of Precision Castparts is noted for its future contribution to earnings. On insurance operations, Buffett remarks on a 13-year streak of underwriting profit and an \$88 billion float aiding investment income. He also outlines Berkshire's acquisition strategy, focusing on businesses with robust management.

Addressing climate change, Buffett recognizes its potential impact but notes Berkshire's insurance business can adapt through annual premium adjustments. Finally, he praises Berkshire's corporate staff for their efficiency and dedication, underscoring the company's unique culture and the loyalty of its home-office staff.

2016

In 2016, Berkshire Hathaway's net worth grew by \$27.5 billion, marking a 10.7% increase in per-share book value. Over 52 years, the per-share book value surged from \$19 to \$172,108, with a 19% annual growth rate.

The company's early focus on marketable securities shifted in the 1990s to owning businesses, impacting balance sheet relevance.

Buffett's Reflections on Growth, Asymmetry, and Market Adaptation

Warren Buffett reflects on both successful and unwise acquisitions. He notes that while some acquisitions have led to significant gains, others have resulted in losses, affecting Berkshire's book value. This asymmetry between intrinsic value and book value is significant, particularly in the insurance business, which harbors substantial unrecorded gains.

Berkshire's intrinsic value is noted to considerably exceed its book value, fueled by its "Powerhouse Five" largest non-insurance businesses and a profitable insurance operation backed by an \$88 billion float. Buffett critiques the investment management industry, particularly hedge funds, for high fees that often do not correlate with performance. He advocates for low-cost index funds, emphasizing the importance of minimizing investment costs.

Buffett's letter underscores Berkshire's adaptive approach to changing markets, including climate change challenges, and praises the corporate staff's efficiency and commitment. He stresses the importance of strong management in acquisitions and Berkshire's focus on longterm value and economic efficiency.

2017

In his 2017 letter to Berkshire Hathaway shareholders, Warren Buffett reports a \$65.3 billion increase in net worth, enhancing per-share book value by 23%.

Notably, \$29 billion of this gain came from changes in the U.S. Tax Code, not from Berkshire's operations. Buffett criticizes a new GAAP rule requiring the inclusion of unrealized investment gains and losses in reported net income, warning it will lead to misleading income fluctuations.

Tax Gains Propel Berkshire, Warns of Accounting Changes

Buffett discusses Berkshire's acquisition strategy, highlighting the challenges in 2017 due to high market prices. A significant acquisition was a 38.6% stake in Pilot Flying J, the leading travel-center operator. He also examines Berkshire's insurance operations, emphasizing the critical role and risks of "float."

The letter reviews Berkshire's non-insurance businesses, which earned a pre-tax income of \$20 billion in 2017, and stresses the need for major acquisitions for substantial growth.

Buffett reflects on Berkshire's investment approach, treating stock holdings as business interests rather than short-term trades, and advocates for a long-term value investment strategy. Finally, Buffett announces Ajit Jain and Greg Abel as new Vice Chairmen of Berkshire, underscoring their expertise and commitment. He invites shareholders to the annual meeting, emphasizing equal treatment and appreciation for the Berkshire team's dedication and efficiency.

2018

In 2018, Berkshire Hathaway reported a GAAP earnings of \$4.0 billion, with \$24.8 billion from operations and significant losses from Kraft Heinz and reduced unrealized capital gains.

Warren Buffett criticized the new GAAP rule requiring the inclusion of unrealized investment gains and losses in net income, causing inconsistent quarterly results, and advised focusing on operating earnings.

Buffett Shifts Focus, Criticizes GAAP Rule, Emphasizes Long-Term Strategy

Buffett announced the end of reporting annual changes in Berkshire's per-share book value, citing its decreased relevance as Berkshire evolved from primarily holding stocks to owning operating businesses. Future focus will be more on Berkshire's market price.

Management changes in 2018 were highlighted, with Ajit Jain overseeing insurance operations and Greg Abel managing other businesses, enhancing Berkshire's management quality. Buffett discussed Berkshire's investment strategy, emphasizing long-term value and intrinsic value over market fluctuations.

Berkshire's non-insurance businesses, notably BNSF and Berkshire Hathaway Energy, showed significant earnings. Buffett mentioned Berkshire's cautious use of debt and the advantage of significant float from insurance operations. He praised the American economic system for contributing to Berkshire's success. Buffett concluded by expressing his and Charlie Munger's satisfaction with their work and optimism for Berkshire's future under the new management structure.

2019

In 2019, Berkshire Hathaway reported GAAP earnings of \$81.4 billion, heavily influenced by a \$53.7 billion gain from unrealized capital gains in stocks, compared to \$4 billion in 2018.

Warren Buffett and Charlie Munger criticize the GAAP rule for including unrealized gains and losses in earnings, causing volatile earnings reports. Buffett emphasizes focusing on operating earnings for a truer company assessment.

Berkshire Hathaway's Buffett Advocates for Operating Earnings Focus Amidst GAAP Critique

Buffett highlights the importance of retained earnings, advocating for reinvesting profits

into the business, a strategy central to Berkshire's growth. He also discusses the mixed results of acquisitions and the complexity of corporate governance, including board dynamics and director compensation.

Berkshire's non-insurance operations, including BNSF railroad and Berkshire Hathaway Energy, showed strong earnings. The insurance business, driven by the 'float' model, remains robust despite low interest rates affecting the industry. Buffett notes Berkshire's significant equity investments and views these as long-term ownership rather than short-term trading. He stresses the company's readiness for his and Munger's eventual departure, aiming to preserve its culture and business efficacy.

The letter concludes with details about the 2020 annual meeting, highlighting greater roles for key managers Ajit Jain and Greg Abel, reflecting a transition in leadership exposure.

2020

In 2020, Berkshire Hathaway reported earnings of \$42.5 billion under GAAP.

This included \$21.9 billion from operating earnings, \$4.9 billion in realized capital gains, a \$26.7 billion increase in unrealized capital gains from stocks, and an \$11 billion loss due to write-downs in subsidiary and affiliate valuations.

Despite a 9% decrease in operating earnings and no significant acquisitions, Berkshire enhanced shareholder value by repurchasing about 5% of its shares and retaining earnings.

Diverse Businesses, Strong Leaders, Long-Term Returns

Warren Buffett emphasizes the importance of operating earnings over the fluctuating values of capital gains and losses. He acknowledges a major mistake in overvaluing Precision Castparts, leading to a substantial write-down, but maintains confidence in the company's long-term performance. Berkshire Hathaway's approach as a conglomerate involves acquiring diverse businesses with strong economic characteristics, managed by capable leaders.

Berkshire stands out for its substantial investments in American property and equipment, with major holdings in BNSF Railway and Berkshire Hathaway Energy. These businesses require significant ongoing capital expenditures but are expected to deliver strong returns over time.

The 2021 annual meeting was planned to be held in Los Angeles with both Buffett and Charlie Munger present, indicating a return to their collaborative format. Buffett concludes with a positive outlook on America's economic potential and expresses a special connection with Berkshire's individual shareholders, who he views as long-term partners in the company's journey.

2021

In his annual letter to the shareholders of Berkshire Hathaway Inc., Warren Buffett, along with his partner Charlie Munger, expressed their gratitude for the trust placed in them by shareholders.

They emphasized their commitment to treating all shareholders equally, avoiding discussions with analysts and large institutions, and releasing important communications on Saturdays to allow time for absorption.

Thank Shareholders, Underscore Long-Term Investing in Annual Letter

The letter provided an overview of Berkshire Hathaway's diverse portfolio of businesses, which includes wholly-owned businesses and marketable common stocks of major American companies. Buffett and Munger highlighted their approach of investing in businesses with durable economic advantages and excellent CEOs rather than focusing on short-term market moves.

The letter also discussed surprising facts about Berkshire Hathaway, including its ownership of significant "infrastructure" assets in the U.S. and its substantial federal income tax payments. It reflected on the historical partnership between American businesses and the government. Berkshire Hathaway's four major holdings were discussed, including insurers, Apple, BNSF (a crucial railway for American commerce), and Berkshire Hathaway Energy (BHE), which has become a leader in renewable energy.

Buffett discussed the company's investments in equities, the importance of repurchasing Berkshire shares when the price is right, and the value of "float" generated by their insurance businesses. He also mentioned the impressive growth of TTI, a subsidiary of

Berkshire Hathaway, and the role it played in connecting Berkshire with BNSF.

The letter concluded with Buffett's reflections on his lifelong commitment to investing and his optimism for the future of Berkshire Hathaway.

Overall, the letter provided valuable insights into Berkshire Hathaway's management philosophy, investment strategy, and the importance of long-term thinking in building a successful conglomerate.

2022

Trust, Patience, Candy Sales & Record Profits in Berkshire's Annual Letter

Warren Buffett's annual letter to Berkshire Hathaway shareholders emphasizes trust and long-term relationships. Shareholders have entrusted their savings to Berkshire, often choosing philanthropy over passing wealth to their families. Buffett and Charlie Munger distinguish themselves as "business-pickers" rather than stock-pickers, focusing on companies with enduring economic advantages and dependable management, acknowledging past mistakes.

In 2022, Berkshire achieved a record operating profit of \$30.8 billion, highlighting the difference between operational and GAAP earnings. They mention the acquisition of Alleghany Corporation, which expanded their insurance float. The letter touches on federal taxes, showing that Berkshire's corporate income tax payments were a small fraction of the U.S. Treasury's total revenue.

Buffett and Munger offer investment wisdom, emphasizing patience, rationality, and continuous learning. They reflect on their partnership, with Charlie's succinct perspective. The letter humorously mentions successful See's Candies sales during the shareholder meeting.

In summary, the letter provides insights into Berkshire Hathaway's investment philosophy, financial performance, and the enduring trust between Warren Buffett, Charlie Munger, and their loyal shareholders..

2023

In the 2023 Berkshire Hathaway annual letter, Warren Buffett pays homage to Charlie Munger, crediting him as the visionary behind Berkshire's success. He reflects on Munger's pivotal advice in 1965 that led to a shift in investment strategy towards acquiring wonderful businesses at fair prices, a move that has significantly shaped Berkshire's growth trajectory. Buffett emphasizes Berkshire's commitment to transparent communication with its shareholders, highlighting the importance of long-term investment principles.

Tribute to Charlie Munger and Berkshire Hathaway's Enduring Investment Philosophy

The letter outlines Berkshire's financial performance, noting a rebound in net earnings to \$96 billion in 2023 and emphasizing "operating earnings" as a more reliable financial metric, which rose to \$37.4 billion. Despite challenges in regulatory and economic environments, particularly within the energy sector, Buffett praises the exceptional performance of their insurance business and reaffirms Berkshire's investment philosophy focused on businesses with favorable economics and trustworthy management.

Buffett acknowledges the challenges posed by Berkshire's size for future acquisitions but remains optimistic about the company's prospects. He concludes by inviting readers to the annual meeting in Omaha, playfully musing on the "Omaha Effect" and its role in the success of Berkshire and its associates, including his sister Bertie, underscoring simple, disciplined investment principles.

Learning together, winning together.

This eBook compiles and summarizes the annual letters to shareholders from Berkshire Hathaway, spanning the years 1977 to 2022. Berkshire Hathaway, a multinational conglomerate headquartered in Omaha, Nebraska, is renowned for its long-term investment success and the wisdom of its CEO, Warren Buffett, often referred to as the "Oracle of Omaha." These letters offer unparalleled insights into the investment philosophies, business strategies, economic commentaries, and reflections on corporate governance and life lessons from one of the most successful investors in history.

The content has been meticulously distilled to provide readers with the essence of Buffett's and his vice chairman, Charlie Munger's, teachings and perspectives, making complex financial and economic concepts accessible to a wide audience. Through this eBook, we aim to present the timeless wisdom encapsulated in Berkshire Hathaway's communications, offering valuable lessons in business, investing, and life.



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[weareNOYACK](#)

We don't have to do this.
We get to do this.

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