

Northstar Notes

“Someone’s sitting in the shade today because someone planted a tree a long time ago”

– Warren Buffett

Our Visit to Berkshire’s Annual Shareholders Meeting
Connections between business culture and investment culture: on the importance of a level-headed approach

We at the Northstar Group consider ourselves to be (somewhat) intelligent people. But there are moments when our self-confidence is called into question. Touching down at Omaha’s Eppley Airfield, we wondered if leaving the beautiful spring weather in Midtown Manhattan for Nebraska’s freezing temperatures and icy precipitation wasn’t one such moment. As the Berkshire Hathaway annual shareholders meeting got into full swing though, our reasons for attending became more apparent.

If the location of the meeting hadn’t already tipped you off, Warren Buffett and Charlie Munger are not obsessed with flash. See’s Candy, GEICO, Burlington Northern and Santa Fe Railroad, and other businesses that comprise Berkshire’s holdings aren’t ones you hear or think a lot about. The culture of Berkshire Hathaway is informal, decentralized, and based on thinking of all of their investments not as “pieces of paper,” but as shares in actual companies, with real people and real products.

The importance of a business's culture is something that came up more than once at the meeting. One discussion of company culture came when Buffett discussed his firing the CEO of the paint manufacturer Benjamin Moore & Co. Long story short, the CEO had planned to begin selling directly to big-box stores like Home Depot and Lowe's rather than to the many smaller dealers which the company had done business with for years. When Berkshire bought Benjamin Moore, these dealers had been assured that their relationship with the company would not change. When Buffett saw that those relationships were in danger, and that Benjamin Moore was about to "violate the promise," he took a necessary step to preserve them.

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Preserving the culture isn't about sentimentality, though, at least not entirely. In Berkshire's case, it is part of a successful business model. If Benjamin Moore had gone ahead with their plans to begin selling directly to Home Depot and Lowe's, though their earnings would have increased initially, they would ultimately have been at the beck and call of big box retailers. By preserving their distribution network, Buffett ensured their long-term viability as a company.

So how does this apply to our work with you, our clients? Well, we'd love to be able to beat the market every quarter, year after year after year, and send out a steady stream of self-congratulatory reports. The truth is,

though, if anyone claims to be able to do that, run, don't walk, in the other direction. Investing smaller sums gradually may not provide the same adrenaline rush as investing a lump sum all at once; nor does it provide the immediate gratification of a big win. However, this kind of level-headed approach makes it significantly tougher to inflict financial harm on ourselves—although if you insist on buying yourself a \$1,700,000 Bugatti, we can only help so much.

Which brings us back to the original question: Why go to the Berkshire meeting in the first place? It's tough to nail down an answer, but we can tell you that the impulse that drives us to get on a flight to Omaha may be same one that drives families to gather together each year for major holidays, religious and secular. We don't go to have our worlds flipped upside-down, to learn something new and different, but rather to be reminded of basic guiding principles that sometimes get lost in the day-to-day. It's easy to become obsessed with beating the market over a quarterly or year-long period, but that's not the culture we've sought to promote at Northstar. Our concerns lie with you, our clients, and helping you live the way you want now, and years in the future.

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