

WHAT DOES WARREN BUFFETT THINK?

Fresh perspectives on the economy from the wisest investor in the world.

Did you see Charlie Rose's interview with Warren Buffett? On October 1, the two of them met in San Diego for a brief chat about the economy and the financial markets. Earlier that day Buffett had announced that his holding company, Berkshire Hathaway, would invest \$3 billion in General Electric.¹ The great investor was realistic about today's economy - and also optimistic.

"It's like a great athlete that's had a cardiac arrest." That's Buffett's view of the U.S. economy right now. What led to the heart attack? He puts it as simply as he can: "300 million Americans, their lending institutions, their government, their media, all believed that house prices were going to go up consistently. And that got billed into a \$20 trillion residential home market."

Everyone leveraged up, and when "you have a 20% fall in value of a \$20 trillion asset, that's \$4 trillion. And when \$4 trillion [in] losses lands in the wrong part of this economy, it can gum up the whole place." Now, with so many major financial institutions trying to deleverage, "there is only one institution in the world that can leverage up in [a] countervailing force to that, and that's the United States Treasury."²

"An economic Pearl Harbor." Dire words? Well, in Buffett's view, that was what the last month or so on Wall Street had meant for the country. "In my adult lifetime, I don't think I've ever seen people as fearful economically as they are right now. They are not wrong to be worried." When something like this hits, he added, "You better spring into action with the best people you have." He praised the initiative and vision of Treasury Secretary Henry Paulson - and FDIC Chairman Sheila Bair, in his view the unsung hero of the crisis. For the next administration, "it's more important who the Treasury Secretary is than who the Vice President is."

Will taxpayers get their money back? "I would bet on it." Buffett feels that the Treasury Department's plan to purchase hundreds of billions of mortgage-related assets will turn a profit given that they will buy them at market, and also "because the United States government has staying power and it has a low cost of borrowing." The Bush administration's plan is, in short, "the kind of stuff I love to do." He noted that "if I could take 1% of that \$700 billion pot and take the gain or loss from it and be their partner, and they would buy the stuff at market, I'd make a lot of money."

"Financial weapons of mass destruction." Buffett is no fan of derivatives. "They destroyed AIG. They certainly contributed to the destruction of Bear Stearns and Lehman." He feels that if AIG had resisted the temptation of derivatives, it "would be doing fine today." He later added that the Federal Reserve structured its \$85 billion loan to AIG "very, very well ... they have put themselves in a position where they are

very likely to get their money back, maybe more ... I mean I want to hire the guy that made that deal. He'd fit in well at Berkshire."

The "choice" America is making. In Buffett's assessment, the U.S. is "to some extent, making a choice between future inflation and getting off the floor. And we're likely to have more inflation in the future as a consequence of the things we do to fight the present situation." He cautions that "unemployment's going to go up under any circumstances."

"You want to be greedy when others are fearful." Personally, Buffett sees many attractive opportunities right now. Cash reserves are certainly important, "but when people talk about cash being king, it's not king if it just sits there and never does anything. There are times when cash buys more than other times, and this is one of [them]." In addition, Buffett reminds us of the inverse of his principle: "You want to be fearful when others are greedy. It's that simple."

"Oh, I think confidence will come back." When Rose asked him what might "never be the same" about Wall Street or the American economy, Buffett replied optimistically. "We've got all the ingredients for a sensational future. It's just that right now the athlete's on the floor. But this is a super athlete."

"I don't want any viewer to [think] a magic wand exists in Congress," he stated. "So they're going to see some more bad news. But if we do this, we're doing the right thing. And if [we do], the system will work over time."

Play the video. See the entire interview at charlierose.com/shows/2008/10/1/1/an-exclusive-conversation-with-warren-buffett. Or go to cnbc.com/id/26982338/page/2/ for a full transcript. And don't forget to ask your financial advisor for his or her perspective on recent financial developments and the way they may affect you.

These are the views of Peter Montoya Inc., not the named Representative nor Broker/Dealer, and should not be construed as investment advice. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information.
