



This is the unofficial transcript of the CNBC Town Hall event [Warren Buffett and Bill Gates: Keeping America Great](#), taped Thursday, November 12, 2009 at [Columbia University](#) in New York City. It was prepared for CNBC by [Realtime Subscription Services](#).

ANNOUNCER: The embodiment of the American dream, Warren Buffett and Bill Gates, self-made billionaires whose values run as deep as their wealth. One redefined an industry, the other the modern investor. But both put their stock in America, and by investing in business and humanity, reaped the rewards of this great country's capitalist tradition. Today that tradition is under siege, our way of life questioned. And with America at an inflection point, a future generation looks for guidance from the world's two greatest capitalists. Now, they are going back to school, not to learn, but to teach. Showing the next generation of business leaders that wealth is not about the money you amass, but the number of lives you enrich. Tonight in a CNBC town hall event, Warren Buffett and Bill Gates share their secrets to keeping America great.

BECKY QUICK: A special CNBC town hall. I am [Becky Quick](#) at [Columbia Business School](#) at Columbia University. Let's hear it, guys. [CHEERS AND APPLAUSE] We are in the heart of New York City. This is the world's center of capitalism and this is the place where dreams really do come true. In fact, right now, look at all these people here today. We could be surrounded -- [CHEERS AND APPLAUSE] -- We could be surrounded by the next Warren Buffett or Bill Gates. How about you? You ready to go?

STUDENT: We are so excited to all be here today. You wouldn't believe how much tickets are being sold for out front.

BECKY: I know you're not telling the truth. You had to get in with your I.D., right?

STUDENT: Yes, this is true.

BECKY: We're ready to go tonight. Tonight it is all about Keeping America Great. [CHEERS AND APPLAUSE]

No people have done that better than Warren Buffett and Bill Gates. Folks, let's please welcome Warren Buffett and Bill Gates. [CHEERS AND APPLAUSE]

I see Warren is trying to work the home crowd here with Columbia. [CHEERS AND APPLAUSE]



Gentlemen, thank you so much for joining us tonight. This has been, as you know, an extraordinary year. This is a year where the rules have been completely rewritten, where we have thrown out the rule books, and we have seen icons collapse. This is

also a time when a lot of people have probably wondered about our way of life. People in this very room. That's going to be our focus in just a minute. Gentlemen, before we get to that, the two of you may seem like an odd pair. For anybody who doesn't know you two well --

BUFFETT: You'll think more odd when we get through. [LAUGHTER]

BECKY: What brings you two together tonight? Why you two and why here with these business students here at Columbia?

WARREN BUFFETT: Well, we enjoy working together. Actually, when I left Columbia, they told me I would probably have to come back and repeat a few classes. So here I am.

BECKY: Bill, what about you? You are ready to go with the students?

BILL GATES: Yeah, it will be a lot of fun. Warren and I love getting the questions and talking about our optimism. [APPLAUSE]

BECKY: The reason you two are here tonight is this is a pivotal moment in history. People have questions about the economy, about our entire system of capitalism. And, gentlemen, let me ask each of

you, over the course of the last year, was there ever a time that you had doubts about capitalism and about our way of life?

BUFFETT: No, there was not a time. If there had been, last September when we invested a lot of money, that was when the country was looking into the abyss. The money was flowing out of money market funds. The commercial paper market died and everything. We put \$8 billion to work in just a matter of a few days then. So I never lost confidence in the system. This country works, you know. We've got 200 years of proof. And it's going to continue to work. [APPLAUSE]

BECKY: Bill, what do you think, Bill?

GATES: Well, we have a complex financial system which we have proven that we can make mistakes. But more fundamental than that is the innovation, the fact that you can create new companies, that people are willing to take risk and invest, that there's great science going on. This country still has the best universities, the best science, and we're going to tune our system of capitalism, you know. The idea that you have a lot of short-term loans covering long-term needs, the amount of leverage that was there, there are definitely some lessons. But the fundamentals of the system, a marketplace-driven system where we invest in education and a great infrastructure for the long-term, that's continued. And, you know, I'll bet there are some inventions that took place in that fall in the darkest hour: People were working on new drugs, new chips, new robots and things to make life better for everyone in the decades ahead. [APPLAUSE]

BECKY: All right. Tonight is all about the students and why don't we start out and get right to it. Why don't you start out. You ready to go?

QUESTION: We are honored to have you here at the university. [APPLAUSE] My question for you is directed to both of you, Mr. Gates and Mr. Buffett. I'd like to know your perspective on whether greed and immoral behavior, unethical behavior, were key causes of the recent financial crisis.

BUFFETT: You went out toward the end, Becky.

BECKY: Just wondering whether greed and corruption were behind what happened.

BUFFETT: It certainly played a part. We have always had greed. That didn't get invented in the last few years. And greed, fear in the third quarter -- I mean, the American people were really panicked there for a while. And it affected their -- it started out on Wall Street but then spilled over into the general economy subsequently. But we're never going to get rid of greed. We're never going to get rid of fear. What we do have is a system, as Bill said, a market system where we have the quality of opportunity and the rule of law combined to unleash human potential in this country over the last couple of hundred years to the degree nobody would have believed possible a few centuries before that.

There's nothing that's gone wrong with that system. Our economy was sputtering and still is sputtering some. But we've got the greatest engine ever devised. And it's just beginning. Greed will continue. Don't



worry about that. Oliver Stone is putting out a second film here pretty soon. Probably get mentioned again in this one with Gordon Gekko making a return. But that is not what drives the American system. What drives the American system is the quality of opportunity in a market system and the knowledge that when you get out of here, you're going to enjoy the fruits of the knowledge you have gained. And it will keep working. I'd love to trade places with any of you.

BECKY: Bill, do you have any extra thoughts on that?

GATES: Well, the best systems are ones where you have good short-term metrics, great accounting, looking at profits, looking at risk and willing to do things long-term. Investing in new research, letting people build new companies. I was a huge beneficiary of this country's unique willingness to take risk on a young person. And, you know, I got to hire people who were older. I got to sell to people who were older. And it was kind of a dream come true. And that kind of thing is -- other countries have seen it and they are trying to create

that same dynamic. And that's good for the world. It's excellent that China and India will borrow our ideas about universities, about entrepreneurship, simplification of business. None of us want to borrow this extreme leverage that we got into. But in a sense, that's kind of a -- I don't want to say minor, but it doesn't speak to the heart of why things have worked so well.

BECKY: All right. Let's get to another question. How about right here?

QUESTION: Hello. My name is Accosia Bagima. I am from the Northern Virginia area and I'm a first-year student here at Columbia. And I want to thank, once again, both of you for coming. It's an honor. My question is directed toward Mr. Gates. Mr. Gates, I know you're not in the finance industry, but can you tell us what you were feeling when you first heard that Lehman was filing for bankruptcy?

GATES: I don't follow investment banks, you know, very closely. So it didn't strike me as fundamentally a terrible thing. In the technology business, the two companies I admired the most, Wang Industries and Digital Equipment, had both basically gone bankrupt. Digital actually got bought. And so the fact that there's these ups and downs, certain firms get knocked out, I didn't have any sentimentality over that particular firm. Now, this knock-on effect where other people had debts to them and those were going to be very hard to settle and that complexity might cause things to freeze up, that I called up Warren and I said, "Should I be worried?" And he said, "A little bit."
[LAUGHTER]

BECKY: Warren, was it a mistake for the government to allow Lehman to go under?

BUFFETT: It may have been. But I would say overall, the officials in Washington did a terrific job of dealing with really what was an [economic Pearl Harbor](#), as we talked about. So I would say that if Merrill hadn't been bought by the B of A, Merrill would have gone very quickly. And the dominoes were really lined up. And I don't think it was fully appreciated, perhaps, what a big domino Lehman was or how close it was to the next big dominoes. But overall, I give (former Treasury Secretary Henry) Paulson, I give (Federal Reserve Chairman Ben) Bernanke, I give (FDIC Chairman) Sheila Bair, I give (Treasury Secretary) Tim Geithner, I give them very high marks for the fact they took unprecedented action. [APPLAUSE]

BECKY: Let's get to another question. Right back here at the microphone. Go ahead.

QUESTION: I hope this works.

BECKY: It does. It sounds like it.

QUESTION: Hi, my name is Greg Letter. I grew up in Ohio and I'm also a current student, obviously. My question was with Lehman Brothers and Goldman Sachs, this relates to Mr. Buffett, you had the opportunity to invest. I was wondering how you chose to invest in Goldman Sachs and why you chose not to maybe invest in both, or what made you not decide to invest in Lehman Brothers.

BUFFETT: I had more confidence in both the numbers and the management of Goldman Sachs than any other major firm in Wall Street at that time. Now, there could have been things happened that would have made Goldman Sachs be next in line. (Goldman CEO) Roy Blankfein had said I worked 30 seconds behind Morgan Stanley. This is covered very well in the book called "Too Big To Fail" by Andrew Ross Sorken. But I did not think the system was going to go under. I felt Washington in the end would do the right thing. I thought if they did the right thing, Goldman Sachs was -- I thought it was the best-run operation. I thought its figures were the most solid and I thought they would prosper the most in the future ahead. Plus I liked the terms, too. [LAUGHTER]

BECKY: Warren, you said at that time they had the best management and a lot of other things. Did you change your mind since then?

BUFFETT: Pardon me?

BECKY: Have you changed your mind since then? You said at that time they had the best management.

BUFFETT: Goldman, my experience with Goldman goes back to when I met [Sidney Weinberg](#) in 1940. I followed the company a long time. They have a discipline around there that I think particularly in their marking to market and all of that, I think probably is the best among the firms in Wall Street. And I thought Roy Blankfein had a very strong appreciation of risk. Now, if the system went down, everybody gets hit. But I felt to a great extent they had factored the

best people into the business. So they were my number one choice. I had a few other choices that were offered to me. [APPLAUSE]

BECKY: Let's get to another question, everybody. Another question.

QUESTION: It's a pleasure to be here with both of you today. My name is John Lemley. I'm originally from Scarsdale, New York. Given the severity of the economic downturn, which some attribute to systemic breakdown in risk allegation and underwriting standards, a fiercely partisan debate has ensued regarding the appropriate role of government. Can this role be positive and if so, how?

BECKY: What do you guys think about big government?

GATES: Well, there's clearly a role for the government in business cycles. And over time, that's been tuned, you know, mistakes have been made.



Now, the question is -- and that's largely measured through inflation and interest rates. Now, there's a question of could there be a measure of risk that would cause them to step in and maybe tax transactions, make the bigger firms put more money aside. That is still really a question of whether you can recognize these situations and actually have government play a very positive role. Now, as things start to fall apart, we know there are ways that taking firms that are going down and handling those in a more expedited way -- there's a lot that can be done there. But the basic idea of, can you spot bubbles? Can the government spot bubbles? That's a great question. Some great economists have some ideas. But it is not a proven territory.

BUFFETT: Last September, only the government could have saved things. The whole world wanted to deleverage. And they were deleveraging under conditions of extreme haste and with guns to their head in some cases. And the only entity that could possibly leverage

up at the same time that everybody else wanted to deleverage was the Federal government. And when 200 billion flowed out of money market funds in a couple of days, when commercial paper stopped, only the Federal government could act then. And fortunately we had the people there who recognized that and acted promptly. The government has a huge role. And now going forward, it's a very tricky thing to figure out how to prevent excessive leverage and prevent off-balance sheet arrangements from getting in trouble or for just having people at the top of major institutions that run risks they shouldn't be running. But we're wrestling with that right now. There should be more down side to the head of any institution that has to go to the federal government to be saved for reasons of the greater society. And so far, we have been better at carrots and sticks in rewarding CEOs at the top. But I think some more sticks are called for.

BECKY: All right. Let's get to another question. [APPLAUSE]

QUESTION: My name is Brian, first-year student here at Columbia. And I run a business school right now and seems to me a lot of the villains in the full credit crisis were business school graduates. To what extent do you guys think that business schools like Columbia were in some sense responsible for what transpired in the credit crisis?

GATES: Well, remember that capitalism has been massively successful, you know. Standard of life, medicine, all these great things have come out of it. And business schools play a role in training people to think about value, leadership. There's wonderful skills that are taught at great schools like this. And so the fact that, yes, we have had a crisis and we have dropped back, maybe we wasted two or three years net because of the things that were done wrong, that doesn't say that business schools aren't performing a great service, you know. The case studies of this crisis will be taught here for decades to come. And so at least we'll get that benefit out of the pain we went through. Leverage is a very dangerous thing. And perhaps, you know, Warren talked about derivatives as weapons of mass destruction. That wasn't much heeded. And yet at the end of the day, what happened here, particularly in the real estate sector, the notion of risk that price would drop down and what that meant systematically for those instruments, it wasn't well understood. And the mass destruction followed as predicted.

BECKY: Warren, can you teach ethics in a business school? Does it have to come from somewhere else?

BUFFETT: Come back now?

BECKY: Can you teach ethics at a business school?

BUFFETT: Well, I think the best place to learn ethics is in the home. I think most of us get our values from what we see around us before we get to business school. I think that it's important to emphasize them, but I think that if I had a choice of having great education and ethics fully on in the home or as a course in a school later on, I would choose the home. The wonderful thing about it is in this country, is you can succeed magnificently with ethics. It's not a hindrance. It's a help sometimes. It's a neutral sometimes. But it's



not a hindrance at all. And to cut corners, you know, everybody here has a wonderful future. I mean, this is an economy you're going into that is so much -- [APPLAUSE] If you look back on the 19th Century, we had seven great bank panics. If you look back at the 20th Century, we had the Great Depression and world wars and flu epidemics. This country doesn't avoid problems. It just solves them. And in the next 100 years, our machine will sputter again, you know. Maybe 15 years will be so-so years, but there will be 85 great years. And during the 20th Century the Dow went from 66 to 11,400, so this is fertile soil that you're working in and there's no reasons to cut corners.

BECKY: All right. Let's get another question. [APPLAUSE]

QUESTION: Hi. My name is Katrina Gankena, and I was born in Russia. And I'm a second-year student at Columbia Business School. My question is for Mr. Gates. What industry do you think is going to

produce the next Bill Gates? Because that's the industry I want to get a job in. [LAUGHTER] [APPLAUSE]

GATES: Industries do have different paces of innovation. So the IT industry, driven by the magic of software, the magic of the optic fiber, magic of the chip which doubles in power every couple of years, it's been the industry that has not only been the most exciting, it's also changed the rules for many other industries. The idea of information being available, what the online world is like, that's incredible. I'll tell you, there are a few other industries that will compete for being exciting in the decades ahead. The energy business, some approach will provide cheaper energy that's environmentally friendly. And there's a lot of science, a lot of business. That's a global thing. There will be some great careers there. Medicine, you know. We haven't solved Parkinson's or Alzheimer's or about 20 diseases of these poor countries, and yet we can be sure that we're on track to do that. And so those three industries I think you would do great in. There's many others, but those are the ones that have the strongest appeal to me.

BUFFETT: Find what turns you on. Find what you have a passion for. If somebody said to me when I was getting out of Columbia, you know, that Bill's business was going to be the one that would be exciting, you know, I don't think I'd have done so well. [LAUGHTER] But I knew what turned me on. I had a professor, [Ben Graham](#), I offered to go to work for him for nothing. He said, "You're overpriced." Nonetheless, I went into the business. [APPLAUSE] I will guarantee, you will do well at whatever turns you on. There's no question about that. Don't let anybody else tell you what to do. You figure out what you are doing. [APPLAUSE]

BECKY: All right. We actually got the chance to poll these students. And we asked them if there would ever be a company as transformative as Microsoft in their lifetime. You might be surprised at their response. We will tell you right after this break.

BECKY: Welcome back to CNBC's town hall. We are with Bill Gates and Warren Buffett at the Columbia School of Business at Columbia University. We're in the heart of New York City. And before we went to that break, we asked one of our students -- one of our students actually asked, which industry is going to be producing the next Bill

Gates. Now, as we mentioned, we got the chance to take a poll of the students in this room and we asked them if they thought they would ever see a company as transformative as Microsoft in their lifetimes again. Gentlemen, eight out of 10 said yes. That's 80% saying yes, they do think this will be another issue. You guys are a very enthusiastic bunch. Bill, do you share that sense of optimism?

GATES: Absolutely. Capitalism is great and having thousands of things going on in parallel. And a lot of them fail. Some are just mediocre. But the ones that are special can grow and, you know, stun everybody. And in all those fields I mentioned, there is going to be several companies that kind of take your breath away.

BECKY: All right. Let's get to another student question. [APPLAUSE]

QUESTION: Hi, my name is Lisa Williams. I'm from South Orange, New Jersey. I'm currently a first-year at the MBA program. Glad to have you both here. My question is actually for Mr. Buffett. There has been a lot of discussion around the true drivers with the recent deal with Burlington Northern. I was wondering if you could share with us your key motivation for wanting to increase exposure to the railroad sector at this time.

BUFFETT: You know, when I was six, I wanted a railroad set and my dad didn't get it. [APPLAUSE] You think about it. The railroads are tied to the future prosperity of this country. You can't move a railroad to China or India or anyplace else. We start out with the premise, and I can't think of a more sound premise, that there will be more people in this country, 10, 20, 30 years from now. They will be moving more and more goods back and forth to each other. And you have the most environmentally friendly and the most cost-efficient way of doing that on the railroads. The Burlington Northern last year moved -- on average it moved a ton of freight, 470 miles on one gallon of diesel. That is far, far more efficient than what takes place over the highways. You have the situation where overall they use 1/3 less fuel, they put far fewer pollutants into the atmosphere than trucks will. One train will supplant 280 trucks are so on the road. So the rails are in tune with the future. I like the West. I like the 30-some-thousand miles of roadway that Burlington has. And, you know, if this country has a poor future, the rails have a poor future. I'm willing to bet a lot of money, 34 billion to be specific -- [LAUGHTER] -- on the fact that 10 years from now, 20 years from now, 50 years from now, there will be more and more goods being moved by rail and better for the

country and it will be better for the shareholders of the Burlington Northern.

BECKY: OK. [APPLAUSE] Another question.

QUESTION: Hi. My name is Josh Porter. I'm a first-year from North Reading, Massachusetts. It's an honor to have you both here. So we just went through the worst financial crisis of hopefully all of our lifetime. And I know it keeps a lot of Americans up at night, you know, worrying about their future. What, if anything, keeps either of you up at night?

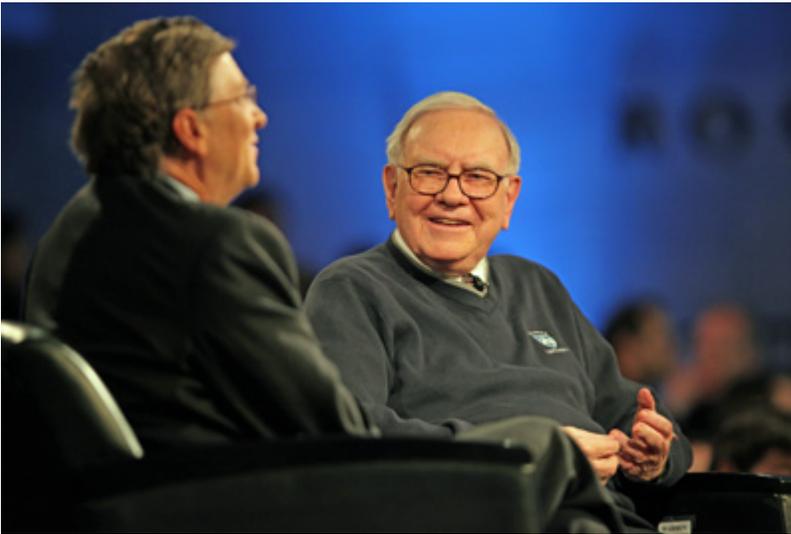
BUFFETT: I try to live my life so nothing keeps me up at night. [APPLAUSE] I don't like to sound, you know, like a mortician during an epidemic or anything, but last fall was really quite exciting for me. [LAUGHTER] I don't wish it on anybody, but there were things being offered. There are opportunities for us to do things that didn't exist a year or two earlier. So I really don't -- I don't want to be in a position where I am leveraged or something of the sort that does keep me up at night. I did not worry about the ultimate survival of our economic system. We were messed up. Wasn't any question about that. But the plants haven't gone away. The cornfields haven't gone away. The talent of the American people hasn't gone away. The innovativeness of the next Bill Gates hasn't gone away. This country was going to do fine. I knew that. We just had to get things straightened out. And we're well on the way to having that happen.

BECKY: Bill, you mentioned -- [APPLAUSE] You mentioned before that you called Warren and he said, 'Yeah, we should maybe be a little worried.' Did you stay up late that night worrying about it?

GATES: No. The financial system, fortunately, good leadership has a lot of self-correction built into it. I think there are a few things that could surprise us that are negative. You know, big terrorist event sometime in the next 20 years, that would be a big negative. And a pandemic, which we're actually having in terms of the rate of spread of a new flu, one right now. And fortunately, its actual impact is very modest, way less than any such thing. So you have to keep your eye out for a few outliers like that. Those are the two that I would point to. But overwhelmingly, the rest of the system, you know, there is self-correction built into it. The long-term thing that I don't lose sleep over but I worry about is that we do have our education system, particularly the K through 12 part, not improving as much as we

should. And it's an important system for opportunity, it's an important system for the economic strength of the country, and since it hasn't improved that much, that's a bit scary and needs a lot more attention.

BUFFETT: Becky, if you had a wonderful farm and you knew the next 50 years there would be five droughts but there would be 45 good years, I mean, you would not become paralyzed thinking about the five drought years. You would recognize that you've got a system that works very well over time, and that's our American economic system.



BECKY: Since we just had the drought year, does that make it less likely for the --

BUFFETT: No. If you study statistics at Columbia, you'd recognize that [APPLAUSE]

BECKY: OK. Let's get to another question. Right back

here.

QUESTION: I'm Peter Lawrence, first-year student from Columbia. And, first of all, thank you both so much for coming here. Mr. Buffett, the recent runup in the market has been historic. And it seems that many people question the sustainability of the current price level. Do you think the rally is for real?

BUFFETT: What's going to happen tomorrow, huh? [APPLAUSE] Let me give you an illustration. I bought my first stock in 1942. I was 11. I had been dillydallying up until then. I got serious. [LAUGHTER] What do you think the best year for the market has been since 1942? Best calendar year from 1942 to the present time. Well, there's no reason for you to know the answer. The answer is 1954. In 1954, the Dow ... dividends was up 50%. Now if you look at 1954, we were in a recession a good bit of that time. The recession started in July of '53. Unemployment peaked in September of '54. So until November of '54 you hadn't seen an uptick in the employment figure. And the

unemployment figure more than doubled during that period. It was the best year there was for the market. So it's a terrible mistake to look at what's going on in the economy today and then decide whether to buy or sell stocks based on it. You should decide whether to buy or sell stocks based on how much you're getting for your money, long-term value you're getting for your money at any given time. And next week doesn't make any difference because next week, next week is going to be a week further away. And the important thing is to have the right long-term outlook, evaluate the businesses you are buying. And then a terrible market or a terrible economy is your friend. I don't care, in making a purchase of the Burlington Northern, I don't care whether next week, or next month or even next year there is a big revival in car loadings or any of that sort of thing. A period like this gives me a chance to do things. It's silly to wait. I wrote an article. If you wait until you see the robin, spring will be over.

BECKY: But at the same time -- [APPLAUSE] Warren, you have repeatedly said over the last year that investing in American areas is a bet on the future of America. But you have also invested overseas, [companies like BYD](#). You both spent some time in China. Are there more opportunities overseas or right here in America?

BUFFETT: I see more opportunity in the United States. We're the biggest economy and we're looking for big deals. But I am delighted to find something, you know, whether it's in China or whether it's in Israel, like [Iscar](#) or whatever it may be. There are more opportunities in the United States than anyplace else.

BECKY: Bill, you agree with that?

GATES: Well, yes. The U.S. benefits as the globe benefits. You're not going to have a case where the rest of the world does poorly and the U.S. does well. Our fate is tied to open trade, innovation everywhere. You know, even the Burlington, some of the stuff that's on those railroads might come from other countries.

BUFFETT: I hope so.

GATES: It's exciting to see what's going on in China. It's great for us. If we had a choice for all the people in China to be as rich as we are versus be as poor as they were back in 1979, we'd be way better off to say, you know, let's have them be consumers and inventors just like we are. They are a long ways away from that. But they are a

large enough population that great things are happening there. And, you know, many countries that we thought of as basket cases and we sent lots of aid to, like Brazil or Mexico or Thailand, are now big contributors. So it's good for the world that it's not as dependent just on the U.S. But the U.S. is where the energy revolution is likely to happen, the IT revolution will continue. We are expected to lead the way.

BECKY: All right. We're going to be back with another question in just a moment. [APPLAUSE] And by the way, if you have the chance, how would you like to have Warren Buffett or Bill Gates as your career counselor? Well, we're going to have that when we come right back. [APPLAUSE]

BECKY: Welcome back, everybody. We have more questions for Bill Gates and Warren Buffett. And we are running through them, but let's keep them going. Got a question right over here.

QUESTION: My name is Erica Braley and I am a second-year student. My question is for Mr. Gates. What is the most important thing you do every day?

GATES: Hmm. [LAUGHTER] [APPLAUSE] Well, I do a lot of variety. I think reading a lot, you know, and continuing to learn. I'm in a lot of new areas in the Foundation, education, health. And I love reading a lot. So I think, you know, arming myself with that knowledge and sitting down with people who live the topic and brainstorming with them, that's what helps me back the right people and make sure I know what's going on. So I guess I'd say learning is what is the key thing. [LAUGHTER] [APPLAUSE]

BECKY: What was that? Let's get to another question.

QUESTION: Mr. Buffett, Mr. Gates, thank you for being here today. My name is Justin Heyman, I'm a second-year MBA, as I get ready to graduate, I was wondering, what's the one thing that your MBA didn't prepare you for when you got out into the real world?

BUFFETT: Well, I was -- it prepared me very well, not the whole degree, but specific professors prepared me very well for what I wanted to go into. I knew I was interested in investing, like I say,

from the time I was six or seven years of age. So I was lucky that I found what turned me on early on. And I had these two marvelous professors here at Columbia that just being around -- I had read all



the stuff they had written. So it wasn't I was acquiring lots of incremental knowledge but I was getting inspired. They were terrific for me. They treated me like a son. They would take me out to dinner. Ben Graham did the same thing for me.

So it gave me confidence in myself. It just propelled me into a field I already love with a terrific tailwind from these professors that believed in me. [APPLAUSE] But let me add one point because -- to the MBA situation. Right now, I would pay \$100,000 for 10% of the future earnings of any of you. So anybody that wants to see me after this is over -- [LAUGHTER] [APPLAUSE] If that's true, you are a million-dollar asset right now, right, if 10% of you is worth 100,000? You could improve -- many of you, and I certainly could have when I got out, just in terms of learning communication skills. You know, it's not something that is taught. I actually went to a Dale Carnegie course later on in terms of public speaking. But if you improve your value 50% by having better communication skills, that's another \$500,000 in terms of capital value. See me after the class and I'll pay you 150-thousand. [APPLAUSE]

BECKY: Warren, you bring up your time here. I don't know if you can see the monitors back here, but we did take a look at your yearbook and steal your picture from 1951 year.

BUFFETT: Uh-oh.

QUICK: I think we have a picture in the back. There you are. [APPLAUSE]

BUFFETT: I don't think I'd pay \$100,000 for 10% of that guy.
[LAUGHTER]

BECKY: Another question right here.

BUFFETT: Hi. My name is Oleg Cheesh. I'm a second-year MBA student here. My question is for Mr. Gates. You obviously worked very hard to get to where you are. Could you reflect on what role pure luck played in your success?

GATES: Well, I was lucky in many ways. I was lucky to be born with certain skills. I was lucky to have parents that created an environment where they shared what they were working on and let me buy as many books as I wanted to. And I was lucky in terms of the timing. The invention of the microprocessor was something profound. And it turned out only if you were kind of young and looking at that could you appreciate what it meant. And then I had been obsessed with writing software. It turned out that was the key missing thing that would allow the microprocessor to have this incredible impact. So in timing and skill set, in some of the people I was lucky enough to meet, you know, meeting Warren and talking to him, learning from him, it is unusual to have so much luck in one life, I think. But it's been a major factor in what I have been able to do.

BECKY: All right. Another question right here.

QUESTION: Hello, my name is Ugin Quinn, I'm from Deerfield, Illinois. And I'm a first-year student at Columbia Business School. I'd like to direct my question to both Mr. Buffett and Mr. Gates. In the context of both your professional relationship and unique friendship, what do you admire most about each other?

BECKY: OK. Who wants to take that one first? [LAUGHTER]

BUFFETT: My athletic ability. Say that. [APPLAUSE] Well, I would say what I really most admire about Bill is the view he has about what he should do with the wealth he's accumulated. I mean, as he said, he was very lucky. He was born in the right country, at the right time, with the right wiring and all of that sort of thing. In the end, he knows he's a beneficiary of a terrific society, and not everybody gets the long straws like he and I did. So he is -- and he has this view that every human life worldwide is the equivalent of every other human life, and he's backing it up not only with money, but backing it up with his

time. And his wife, Melinda, is backing it up with her time. And they are really going to spend, you know, the last half of their lives or so using both money, talent, energy, imagination, all improving the lives of 6.5 billion people around the world. That's what I admire the most. [APPLAUSE]

BECKY: Bill.

GATES: With Warren, there are a lot of things you could pick, you know, his integrity as an example for the world. His sense of humor. But I think I'd pick his desire to teach, his desire to teach things that are complex and put them in a simple form so that people can understand and get the benefit of all his experience, all his models of how the world works. He loves to teach. And he does it meeting with students. He does it in his annual newsletter. He does it when he's talking to me on the phone. It's a real gift that I admire incredibly. [APPLAUSE]

BECKY: Let's take another question right here.

QUESTION: Mr. Buffett, Mr. Gates, thank you for being here tonight. I am Ibrahim Dolly, first year here at Columbia. I came from Portugal. I have a question for both of you. You both knew early in your careers what you wanted to do in your life. What advice do you have for those of us who are a little bit unclear?

GATES: Well, finding the thing that you are passionate about and that you are good at can sometimes take a period of years. I think Warren and I were lucky we kind of ran into it. I wasn't even sure it was software. I was kind of obsessed with it but then it wasn't clear it could be a career. When that happened, it was great. I think most other people get into their 20s and have to try out some different experiences. And some things will expose you to a lot of different businesses, a lot of different work opportunities. And I think you can make your first few jobs optimized for getting that exposure. And then when you want it, see the thing that you want to be fanatical about and just jump on to that.

BECKY: All right.

BUFFETT: First of all, I'd say marry the right person. [LAUGHTER] And I'm serious about that. [APPLAUSE] It will make more difference in your life. It will change your aspiration, all kind of things. It's

enormously important who you marry. Beyond that, I would say that do what you would do if you were in my position, where the money means nothing to you. At 79, ... I work every day. And it's what I want to do more than anything else in the world. The closer you can come to that early on in your life, you know the more fun you're going to have in life and really the better you're going to do. So don't be driven where you think the last dollar is presently or anything of that sort. And then also go to work, if possible, for an organization or an individual that you admire. I mean I offered to go to work for Ben Graham because there was nobody I admired more in the business than him. I didn't care what he paid me. When he finally did hire me in 1954, I moved from Omaha to New York and I didn't know what I was getting paid until I got my first paycheck. But I knew I wanted to work for Ben Graham. And I knew I would jump out of bed every morning and be excited about what I would do and I would go home at night smarter than I was in the morning. Go to work at a job that turns you on and a person that turns you on and institution.
[APPLAUSE]

BECKY: Stay right here. We will be right back.

BECKY: All right. Class continues, everybody. We are back with the two greatest capitalists out there with Investing 101, back to more students' questions. Why don't we start right here?

QUESTION: My name is Adam Van Dam and I'm a first-year student here. This question is for Mr. Buffett. If the Burlington Northern acquisition is any indication of your long-term buy and hold forever investment philosophy, I am wondering if the financial crisis has impacted that philosophy or your investment process in any way?

BUFFETT: No. It hasn't changed at all. We like products like this. How is this for shameless products? [APPLAUSE] This started in 1886. It's gone through all of these events. And the end will be 1.6 billion eight-ounce servings of Coca-Cola products come today and there will be more next year. We want to be in business with a durable competitive advantage with managements we like and trust and do them at a price we like. It hasn't changed a 1/10 of a degree. Incidentally, we own [Fruit of the Loom](#), too, but I'm not going to do a product. [APPLAUSE]

BECKY: OK. Our next question right here.

QUESTION: Hi, I'm Brian Seedabalker. I'm a second-year student. Mr. Buffett, it's great to see you again. I was on the trip to Omaha last month. Thank you for hosting us. My question is, how would you recommend an individual investor who follows the Graham and Dodd philosophy to allocate their capital today?

BUFFETT: Well, it depends whether they are going to be an active investor. Graham distinguished between the defensive and the



enterprising and that. So if you are going to spend a lot of time on investment, you know I just advise looking at as many things as possible and you will find some bargains. And when you find them, you have to act. It doesn't -- it hasn't changed at all since I was here in 1950, 1951. And it won't change the rest of my life. You start turning pages. When I got out of

school, I turned every page in Moody's 10,000-some pages twice, looking for companies. And you have to find them yourself. The world isn't going to tell you about great deals. You have to find them yourself. And that takes a fair amount of time. So if you are not going to do that, if you are just going to be a passive investor, then I just advise an index fund more consistently over a long period of time. The one thing I will tell you is the worst investment you can have is cash. Everybody is talking about cash being king and all that sort of thing. Most of you don't look like you are overburdened with cash anyway. [LAUGHTER] Cash is going to become worth less over time. But good businesses are going to become worth more over time. And you don't want to pay too much for them so you have to have some discipline about what you pay. But the thing to do is find a good business and stick with it.

BECKY: Does that mean you think we are through the roughest times? You had always kept the cash word around, too.

BUFFETT: We always keep enough cash around so I feel very comfortable and don't worry about sleeping at night. But it's not because I like cash as an investment. Cash is a bad investment over

time. But you always want to have enough so that nobody else can determine your future essentially. The worst -- the financial panic is behind us. The economic spillout which came to some extent from that financial panic is still with us. It will end. I don't know if it will end tomorrow or next week or next month. Or maybe a year. But it won't go on forever. And to sit around and try and pick the bottom, people were trying to do that last March and the bottom hadn't come in unemployment and the bottom hadn't come in business but the bottom had come in stocks. Don't pass up something that's attractive today because you think you will find something way more attractive tomorrow.

BECKY: Another question right here.

QUESTION: Mr. Buffett and Mr. Gates, my name is Antionette Genevieve. I am a first-year executive MBA student. And I actually work at Goldman Sachs, so thank you for your investment.
[APPLAUSE]

BUFFETT: Why aren't you at work? [LAUGHTER] [APPLAUSE]

QUESTION: My question to you is I'd like both of your thoughts on the investment of alternative energy as for developing our economy and getting it back on track.

BECKY: Bill, you touched on this earlier.

BILL: Well, there are many, many ideas. And there's enough that we can say most of them will turn out to be dead ends. You know, the solar-thermal, solar-electric, nuclear is going to go through some of the revival and see if it can solve some of its cost challenges. As a country, we want to make sure all of those get lots of R&D and regulatory enablement because one of them is going to give us much cheaper power without causing any problem. We don't know which one it is. And we don't have quite as much R&D going into those things as I'd like to see. We have quite a bit, but I think the government policies could drive for more. But it is one of these areas that is somewhat faddish in nature. When you have a lot of energy focusing on a field, the amount of money that goes in is very large. And the overall return on capital is often quite large. The car industry in its heyday was a disaster. The airline industry, even the software industry because people don't remember all the non-Microsofts that don't exist until today. When something is hot, you get kind of a

bubble. So energy, you're going to have to be a bit careful to make sure it's one that's really got its cost structure in line and it's not just being pushed along by subsidies and there will be scientific surprises. So a very hot area, but not necessarily a good area for investment.

BECKY: All right. Why don't we leave it there for now? When we come back, we will have more with Bill Gates and Warren Buffett. [APPLAUSE] We'll be talking about leadership and President Obama right after this break.

BECKY: All right. Welcome back, everybody. We are at Columbia University. And right now we're going straight to the top of Columbia Business School. We are joined by Dean Hubbard. [CHEERS AND APPLAUSE] [Glenn Hubbard](#), by the way, is not only the head of the Business School here, he also happened to serve at the White House where he was chairman of the Council of Economic Advisors. So this is a man who knows not only about what's happening in the economy, but also what's happening with these students. You talk to them all the time. What's the question that you'd like to pose to Mr. Gates and Mr. Buffett?

HUBBARD: Thanks, Becky, and thanks to both of you for being here today. And, Warren, welcome home.

BUFFETT: Thank you. [APPLAUSE]

HUBBARD: Warren, one thing you said years ago that's always stuck with me is you never know who is swimming naked until the tide goes out. And that, of course, says maybe there's some value in knowing when it's going to be low tide. It also says there's value in knowing context. How do we develop -- how do we encourage business leaders who understand context and connect the dots?

BUFFETT: Well, I think they have learned a lot about that in the last year. Some never learn, you know. At Berkshire, we have actually 70-some managers. I think most of them are a fair amount smarter than they were 15 months ago but they were plenty smart to go in. But, you know, I think that what I learned from a Ben Graham, who came up here every Thursday afternoon. He didn't need to do it, you know. He donated whatever he got paid back to the school and all of that. But having sound principles takes you through everything. And

the bedrock principles that really I learned from Graham and Dodd, I haven't had to do anything with them. They take me through good periods. They take me through bad periods. In the end, I don't worry about them because I know they work.

BECKY: Bill, what do you think is the most important character for a business leader to have?

GATES: Well, it's surprising that the fundamentals of business are pretty straightforward, you know. You try to take more in income than

you spend in cost. That's a pretty straightforward subtraction. But it's surprising in terms of projecting out into the years ahead that, you know, are we making the right investments, are we gaining on the competition, are we making it a little bit harder for people to replace what we're doing? That kind of common sense, I guess you've got to develop it through experience. And I think it's neat if you are young and you can see that in a small scale and be hands on with it because a lot of people who start with



large businesses may have a hard time with it. So, you know, the basics are pretty straightforward. Learning how it works and doesn't work in a variety of industries, by reading a lot, I think that's something that comes with time and a business school is an intense period where you can get ahead of the game.

BUFFETT: I send one message out every year and a half or two years. They get one letter from me every couple of years. And basically it says, run this business like it's the only business that your family can own for the next 100 years. You can't sell it. But every year don't measure it by the earnings in the quarter that year. Measure it by whether the moat around that business, what gives it competitive advantage over time has widened or narrowed. If you keep doing that for 100 years, it's going to work out very well. Then I tell them basically if the reason for doing something is everybody else is doing it, it's not good enough. If you have to use that as a reason,

forget it. You don't have a good reason for doing something. Never use that.

BECKY: Let's get to some student questions. [APPLAUSE]

QUESTION: Mr. Buffett, Mr. Gates, it is absolutely fantastic having you here. Thanks a lot. My name is Kata Cafunka. I am a second-year MBA student here at Columbia. Actually, my question is really related to what you were asking. Many of us and many people in general aspire to become somebody like you. But actually only a few people got that height, right? So what do you think were the major qualities that you have that distinguish you from the majority?

BECKY: All right. Bill, Warren, what makes you stand out from the crowd?

BUFFETT: It's always interesting when Bill and I appear together, they don't figure they can do what Bill does, but they know they can do what I do. [LAUGHTER] [APPLAUSE] We did both have a passion. We were doing what we did because we loved it. We weren't doing it to get rich. We probably felt if we did it well, we would get rich. But we'd have done it, you know, if somebody was slipping bread in under the door, you know, to keep us going. And so I think that passion for it is enormously important. I was lucky enough to have a couple of great teachers, particularly one great teacher. I had a great teacher in life in my father. But I had another great teacher in terms of profession in terms of Ben Graham. I was lucky enough to get the right foundation very early on. And then basically I didn't listen to anybody else. I just look in the mirror every morning and the mirror always agrees with me. And I go out and do what I believe I should be doing. And I'm not influenced by what other people think.

BECKY: All right. We'll get to Bill's answer on this in just a minute. [APPLAUSE] Bill Gates and Warren Buffett right after this break.

BECKY: All right. Welcome back, everybody. Welcome back to class. We have left that last break waiting for an answer from Bill Gates. Bill, if you had to pick one thing that makes you stand out from everyone else, what would that be?

GATES: Well, we talked about some of the basics, having great people around you, reading a lot, thinking long-term. I also think, though, there become a few magic moments where you have to have confidence in yourself. You know, Warren when he set off on his own, he could have gone and taken a job as an analyst somewhere. But he knew that he had the skill, that he was going to raise money and have his own partnership. When I dropped out of Harvard and said to my friends, 'Come work for me,' there was a certain kind of brass self-confidence in that. You have a few moments like that where trusting yourself and saying yes, this can come together -- you have to seize on those because not many come along.

BECKY: All right. Great advice. Believe in yourself. Guys, we're going to try and go into a cram session and get in some answers pretty rapid fire. Let's get right back here. We have a question.

QUESTION: My name is Nikki Shelton from Roseville, New York. I'm a second-year student here at the school. First, I just want to thank you guys for being great philanthropists. You guys have done a great job in the world. [APPLAUSE] And my question is for Mr. Buffett. You recently made a huge contribution to the [Bill and Melinda Gates Foundation](#). If you can talk to us a little bit about what your reasoning was and how you'd like to see those funds used.

BUFFETT: Well, I wouldn't have given it to them unless I was 100% in sync with their objective, which is do the most good for the most people, wherever they may be, male or female, whatever their color, whatever their religion or so on. They believe every human life is equal to every other one. I am very good at making money. If you read what [Adam Smith](#) wrote in 1776 about specialization of labor, you know, he said if you need to deliver a baby, don't try to learn to do it yourself. Get an obstetrician. So Bill and Melinda will be better and my children who will also have foundations will be better at doing it than I would be. And that's fine. I'll work at what I'm good at and I'll let them do it. And they are doing it 100% in accord with my wishes.

BECKY: Another question right here.

QUESTION: Mr. Buffett and Mr. Gates, welcome to Columbia Business School. My name is Chris. I'm from Pennsylvania and I'm a first-year MBA student. My question is, who have been some of your

most important mentors? And what lessons have you learned from them?

BECKY: Bill.

GATES: Well, I benefited from my dad and mom who set a great example. [My dad](#) was a lawyer and shared what he was doing at work. I have had some business partners that we have learned together, Steve Balmer in particular. And then I pick Warren as somebody I have learned an immense amount from, just hearing his stories of how he dealt with tough situations, how he thought long-term, how he models the world. If you get a chance to spend time with people like that, it's fantastic.

BECKY: All right. We will be right back. Stay right here.

BECKY: All right. Ready? Welcome back, everybody. This is real crunch time. Let's get right to it. You got it question?

QUESTION: Yeah. Welcome. My name is Steven Matthews. I am in the executive Business School here. Thanks for coming here. My question is on Apple. Mr. Gates, if you could just comment and tell us what your thoughts are on the job [Steve Jobs](#) has done as the CEO of Apple. [LAUGHTER]

GATES: Well, he's done a fantastic job. And Apple is in a bit of a different business where they make hardware and software together. But when Steve was coming back to Apple, which was actually through an acquisition of NeXT that he ran, Apple was in very tough shape. In fact, most likely, it wasn't going to survive. And he brought in a team. He brought in inspiration about great products and design that's made Apple back into being an incredible force in doing good things. And it's, you know, great to have competitors like that. We write software for Apple, Microsoft does. They compete with Apple. But he, of all the leaders in the industry that I have worked with, he showed more inspiration and he saved the company.

BECKY: OK. Tag, you're it.

QUESTION: Thank you. My name is Michael. I'm a first year MBA student. The question is for Mr. Gates. I was wondering if you think Google at all resembles Microsoft during Microsoft's early years.

GATES: Well, they have some of the same problems we had. [LAUGHTER] [APPLAUSE] It's another fine competitor. They are hiring a lot of smart people. They have gotten into the lead position in search, which is incredibly profitable to be number one in that. They may get a little competition as time goes forward. But they are a great example of what can happen, you know, two young guys who got together, pursued an idea and created a success that's absolutely gigantic. And we all, you know, hopefully use search engines, maybe a variety. [LAUGHTER] And we benefit from that.

BECKY: Right here.

QUESTION: Hi, I'm Josh Austin. I'm a second-year MBA student. My question is for you, Mr. Buffett. Value investors, such as yourself, believe that fundamental analysis, deep fundamental analysis is critical to intelligent investing. However, you have said several times in the past that you have made very rapid capital allocation decisions, sometimes in less than five minutes. I was wondering exactly which data gave you confidence in your decision.

BUFFETT: Well, that's 50 years of preparation and five (minutes) of decision making. [APPLAUSE]

BECKY: Can you just look at the spreadsheet? Can you look at an annual report and make a decision like that?

BUFFETT: Yeah. Sometimes I can. Just take Coca-Cola, for example. I sampled the product for 60 years and then I saw a couple of key ingredients, you know, that essentially tipped the scale in terms of buying it back in 1988. But the good big decisions, they don't take any time at all. If they take time, you're in trouble.

BECKY: All right. We will have more with Bill Gates and Warren Buffett, when we come right back.

BECKY: All right. Welcome back, everybody. Gentlemen, last question today. If America was a stock, would you buy it? Bill.

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GATES: You bet.

BECKY: Warren.

BUFFETT: On margin. [LAUGHTER]

BECKY: Gentlemen, we want to thank you very much for your time. You've been wonderful. Bill, Warren, we really appreciate it. Let's give them a big round of applause, guys. [APPLAUSE] And we want to thank all of you, too. Columbia University, the Business School, Dean Hubbard, thank you, guys. We really appreciate it. It's been fantastic. That does it for us today. I'm Becky Quick, and if you want to watch this, you can go to CNBC.com and we will see you back here very soon.

