

CNBC NBC UNIVERSAL

"WARREN BUFFETT"

INTERVIEW WITH WARREN BUFFETT

CORRESPONDENTS: BECKY QUICK, JOE KERNEN AND

ANDREW ROSS SORKIN

NO MEDIA ID

ANDREW ROSS SORKIN:

06:00:02:00 (MUSIC) Good morning and welcome to *Squawk Box* right here on CNBC. I'm Andrew Ross Sorkin along with Joe Kernan. Becky Quick is in Omaha this morning with our very special guest for the morning, Warren Buffett. We're gonna get to them in just a minute. But first we get you caught up on this morning's top stories. Here we go. We're gonna start with the markets.

06:00:17:00 Take a look, the U.S. equity futures-- at this hour-- because we have a pretty interesting story here. Dow Jones, looks like we open off about 90 points, NASDAQ looking open down as well, off about 34 points. And the S&P 500 looking opening down about 12 points off. Overseas in Asia and Japan, Nikkei fell by 1%, the Hang Seng off by 1.3%. And China's Shanghai Composite falling nearly 3%.

06:00:40:00 That's following China's close. The country's central bank cut its reserve requirement ratio by half a percentage point. Also European equity-- at this hour-- you're gonna see there-- again, right now it's across the board with the DAX down-- more than 1.5%-- the CAK (PH) off almost, well, .75% at 5,100-- off a little low for-- .5%.

06:01:02:00 In corporate news, Valeant Pharmaceuticals announced yesterday that CEO Michael Pearson will return from medical leave. The company also postponing the filing of its Q4 results which had already been rescheduled from last week to today. Shares of Valeant-- trading right now-- before the open this morning, you're gonna see actually-- oddly perhaps even marginally down off about that 1%.

06:01:24:00 And we should also tell you that JPMorgan fired the head of its government debt trading desk, another employee, for failing to follow compliance procedures. It's coming according in *The Financial Times*, the two employees left the bank in early January. But for-- the reasons for their departure were not disclosed at the time.

06:01:40:00 And a resounding win, we should tell you over the weekend, for Hillary Clinton in South Carolina over the weekend. Clinton beat Democratic rival Bernie Sanders by 48 percentage points. It was Clinton's third win in the first four nominating contests. A dozen states will vote tomorrow on Super Tuesday.

JOE KERNEN:

06:01:59:00 All right. We are watching gold prices this morning. Precious metal is on track for its best mon-- best month in four years, as investors have been seeking a safe haven. And take a look at the price of crude is down today, but-- not a huge soar (?) yet, it's at \$32.69. It's when it gets down, it looks like it's gonna break under \$30 again, that-- we start worrying that the markets are low

06:02:18:00 Shanghai (UNINTEL) is back below 2,700 now. Let's-- right now, let's get to Becky Quick. I don't know how much sleep she got. She's in Omaha with her special guest this morning. I-- you know, Becky, I-- I heard there was, you know, the Oscars, which golly, everybody wants to watch. And then-- but-- I was conflicted 'cause (LAUGH) the-- the finale--

BECKY QUICK:

06:02:37:00 Was I?

JOE KERNEN:

06:02:38:00 --all-- the all-time finale of *Downton Abbey* was one, two hours I think, and *Walking Dead*. So I said, "You know what? I can't-- I'm not gonna choose, I'm goin' to bed." And I went to bed before 8:00, so (LAUGH) I have no-- I have no idea-- what--

BECKY QUICK:

06:02:52:00 Well, I was with you.

JOE KERNEN:

06:02:53:00 Huh?

BECKY QUICK:

06:02:54:00 I was with you on that--

JOE KERNEN:

06:02:54:00 Good.

BECKY QUICK:

06:02:55:00 I went to-- I went to bed, I have no idea what happened on any of those things except for the--

06:02:58:00 (OVERTALK)

JOE KERNEN:

06:02:58:00 I can't tell you how-- I can't-- yeah, I brought-- I brought a little stone that says "tranquility" with Chinese letters. And I feel very tranquil 'cause I didn't have to-- you know I'm reading about some stuff this morning. There's a lotta conflict going on in the world right now, even at the Oscars. And I-- and I feel good. I feel good that I'm-- I just-- you know, sort of in my own place. And I feel tranquil. So I'm gonna toss it out to you and-- and we'll listen to--

BECKY QUICK:

06:03:22:00 (LAUGH) I'm with you. And-- you're a wise man, Joe. I follow your ways all the time.

JOE KERNEN:

06:03:26:00 Well, you're with the wisest, so--

BECKY QUICK:

06:03:27:00 Here we go. We-- I g-- I am. So let's get straight to that. We are in-- Omaha this morning, live with the oracle of Omaha, Warren Buffett. He's the chairman and CEO of Berkshire Hathaway. He is just off the report of his annual letter the-- that he writes to shareholders. And Warren, it's great to see you this morning.

WARREN BUFFETT:

06:03:44:00 Oh, great to have you here.

BECKY QUICK:

06:03:45:00 You know-- I was thinking a little bit about it, and-- we haven't gotten to talk to you since December.

WARREN BUFFETT:

06:03:49:00 Uh-huh (AFFIRM).

BECKY QUICK:

06:03:50:00 Since December, the last time we talked to you, the markets have gone haywire. People have been wondering-- what's going on and people have actually been clamoring, wondering when we were gonna get the chance to talk to you. So what do you think happened in the last four or five months since we talked to you?

WARREN BUFFETT:

06:04:05:00 Well-- in a sense, probably not that much, if you measure where we are now versus last September. But-

BECKY QUICK:

06:04:11:00 Yeah, a little weaker.

WARREN BUFFETT:

06:04:13:00 People--

BECKY QUICK:

06:04:12:00 I mean--

06:04:13:00 (OVERTALK)

WARREN BUFFETT:

06:04:14:00 Yeah-- I never know what markets are going to do. There's never been a time in my life when I was-- I know what markets are going to do over a long period of time. They're gonna go up. But-- in terms of what's going to happen in a day or a week or a month or a year, even-- I d-- I-- I never felt that I knew it then and I never felt it was important. I-- I-- I-- I will say that in ten or 20 or 30 years, I think stocks will be a lot higher than they are now.

BECKY QUICK:

06:04:38:00 You know, I-- I-- I know you look at things like that, but I-- I-- I also know that you look at stocks and try to decide if they're fairly valued, if they're overvalued, if they're looking cheap at this point. And we have been waiting for a correction for an awfully long time. That's finally come. Do-- do stocks look cheaper to you? Just based on where we've come?

WARREN BUFFETT:

06:04:55:00 Well, any time the stocks go down, as far as I'm concerned, I like it. Because I'm a net buyer of stocks. I'm-- I've been buying stocks ever since I was 11 years old. So-- when stocks go down, it's good news, just like when hamburgers go down it's good news, or Coca-Cola goes down, it's good news in terms of anything I buy.

06:05:11:00 But the-- you know, stocks are gonna go-- you can probably look it up as to what percent of the days of the I-- you know, since I was born have gone down. And maybe it'd be-- 30% or something like that. And-- you-- you can't predict what stocks will do. But-- in-- in the short run. But you can predict that American business will do well over time.

06:05:28:00 And-- just take the 20th century. Stocks went from \$66, the dollar average, \$66 to \$11,497 and-- and you were getting three times as much in dividends as the whole average were selling for at the start. And you had-- you had two world wars and you had a Great Depression, flu epidemics, all kinds of things. Yeah.

06:05:50:00 American business will do fine over time. And if you own a piece of it, and if you don't (UNINTEL) yourself-- the only-- the only person who can cause you to get a bad result in stocks is yourself, you know?

BECKY QUICK:

06:06:00:00 (LAUGH) Yeah, unfortunately that's the biggest problem, is trying to fight yourself in some of these situations.

WARREN BUFFETT:

06:06:04:00 Yeah.

BECKY QUICK:

06:06:05:00 Have you been buying more stock lately just because prices have come down? Have you upped your percentages in other things just 'cause--

WARREN BUFFETT:

06:06:12:00 We're almost always a buyer of stocks. So we have bought more stocks since the end of the year. But we had-- we earned \$17 and a fraction billion last year and we had our (UNINTEL) off \$4 billion, which is additional money available. And so we're almost always a buyer of stocks. And we're a more aggressive buyer when they're going down. I

mean-- I feel much better when they're going down. But-- it's hard to think of very many months when we haven't been a net buyer of stocks.

BECKY QUICK:

06:06:42:00 Let-- let me ask you this. Part of the reason that the stocks have come down so precipitously-- is because people look at the economy and they get awfully worried with stuff they see happening around the globe. They see that there's been a recession here in manufacturing and they worry that that's gonna spill over to the broader economy. What-- what do you see in your businesses and in the companies that you own stakes in?

WARREN BUFFETT:

06:07:03:00 The bus-- business, I would say, is a little softer-- in many places, than people I (UNINTEL) than I anticipated will say four or five months ago. That to me is in reverse. But, you know, we've talked before how since the fall of 2009, overall the economy's just kept movin' up around 2%. And people talked about dipple-- a double dip, you remember hearing that, you know, three or four years ago.

06:07:26:00 And-- and then they talk about it accelerating. And-- and they had (UNINTEL PHRASE) to be (UNINTEL) about 2% most of the time. And-- and-- you know, that is not a bad clip, incidentally. I mean, it-- it will take you a long way. But-- I don't-- I don't think I know what business will do next-- next month or next year.

06:07:46:00 I mean, I bought my first stock in April of 1942. I was 11. And Pearl Harbor had happened three or four months earlier. We were losing the war. I mean, the-- the-- you wanna talk about a bad outlook-- (LAUGH) for the country. Now, nobody thought we were going to lose the war, but at that time, we were getting clobbered in the Pacific.

06:08:07:00 And-- but the Dow Jones average was 100, I mean, you know? And-- and it was a good time to buy stock. I bought-- I bought stock after 9/11. I bought stock in nineteen-eighty-- '87 after the-- the big crash in the fall. It-- the country's not gonna go away. The clients aren't gonna go away. The people aren't gonna go away. The (UNINTEL) aren't gonna go away.

06:08:32:00 The country will grow in value over time. Now who gets it is another question. But-- (LAUGH) but it'll grow in value. And if it grows in value, businesses will grow in value. So it's a terrible mistake, that buy or sell stocks face (UNINTEL PHRASE) you think business is gonna do next month or next-- next-- even next year.

BECKY QUICK:

06:08:49:00 Although the good thing that the economy's a little weaker than we would have expected if we're looking at it five--

WARREN BUFFETT:

06:08:53:00 Well, correct.

BECKY QUICK:

06:08:54:00 --months ago. What-- what-- what do you think happened?

WARREN BUFFETT:

06:08:57:00 Well, I'm not sure what happened. The-- people were just more optimistic then. And-- and-- you had the general thinking, I think, if you go back that-- with the oil was just-- the low price of oil was going to put more money in the pockets of consumers and-- and that-- that was going to cause-- a pickup in business and so on.

06:09:18:00 And-- and it wasn't (UNINTEL PHRASE) that. I mean, the-- the-- the American public got a big gasoline dividend, in effect. The-- that's an interesting plight, which we can get to if you like, as to why-- lower oil prices, which should be good for oil in foreign countries, really may not be in the short run. And we saw what happened on that (UNINTEL).

BECKY QUICK:

06:09:38:00 What-- what-- why-- why is that?

WARREN BUFFETT:

06:09:39:00 Well, it's a very interesting thing. I mean-- we all learned in freshman economics that-- that if oil went down in price, it was bad for the exporters and good for the importers. And-- and certainly, when we had the oil shock back 40 years ago, it was a tax on-- on-- on America and the Saudis were leveling the tax and so on.

06:09:57:00 There's no question that it is good for the country, that lower oil prices. But what happens is that the benefit to the consumer, it feeds in-- next time you go to-- to the filling station, the gas station, you know, you save 15 or 20 bucks. It feeds in very slowly. But the capital values disappear immediately.

06:10:19:00 So if you're sitting with an oil industry in this country that's producing ten million barrels a day or something of the sort-- that's-- that-- at \$100-- ten million barrels a day is-- is a billion dollars of revenue-- \$365 billion a year, capital values may be \$2 trillion based on that. Now all of a sudden you take it down to where you're not making any money, and the \$2 trillion of capital values disappears very quickly, the bank loans against it get sour very quickly.

06:10:51:00 They-- they quit buying from the service companies very quickly. So the negative effects to this huge capital value happen very quickly, whereas it's easing to the consumer very slowly. So even though it's good for the country net, when you're an importing-- economy, it can be very bad in the immediate effects it has.

BECKY QUICK:

06:11:11:00 But we're not looking at an immediate effect anymore. We're-- we're anniversering (?) these low oil prices--

WARREN BUFFETT:

06:11:17:00 Well, right.

BECKY QUICK:

06:11:17:00 So you are talking about an extended period of time. Does it actually change in the point in the economy where--

06:11:23:00 (OVERTALK)

WARREN BUFFETT:

06:11:23:00 No. Because-- the-- the-- the-- the loans against the oil companies, they-- they don't go bad the first day, and all of that. So--

BECKY QUICK:

06:11:29:00 Sure.

WARREN BUFFETT:

06:11:29:00 --so there's-- you-- you get a lot of-- you-- you-- you-- you get a lot of fallout-- in terms of capital values, it hits fairly (UNINTEL). And the banks feel it and this oil supplier-- oil equipment suppliers feel it. So all of those things contract very quickly. People lose their jobs-- in-- in-- in the-- in the-- producing areas. So the-- very tough things happen-- to the economy fairly quickly. And the benefits just keep on falling through slowly.

BECKY QUICK:

06:12:02:00 That-- that explains the correlation that we've seen in weak oil prices and weak stock prices. Is-- is there a point where you think that correlation looses-- loosens up though? And-- and we start to see the benefits instead?

WARREN BUFFETT:

06:12:14:00 Overall, it's good for an oil-importing country, which we are, (UNINTEL) will our oil prices. If oil were free-- it wouldn't be good-- good for us. (LAUGH) It wouldn't be very good. So I-- so I-- and-- and-- and-- and, you know, you'd have a billion jobs to put in the oil industry, which would happen immediately.

06:12:31:00 And so it-- it would-- it would clobber us in certain areas initially. And (UNINTEL) would be bad and (UNINTEL) and there are all kinds of things. And even-- even now-- our-- we have a furniture operation in Houston. And we have them throughout the country, our-- our Houston furniture operation--

BECKY QUICK:

06:12:47:00 The Nebraska Furniture Mart.

WARREN BUFFETT:

06:12:49:00 Well, this is-- this is actually a company we'll start, we're in Dallas--

BECKY QUICK:

06:12:50:00 Oh, okay.

WARREN BUFFETT:

06:12:52:00 Dallas hasn't been (UNINTEL) but in Houston, we've done the worst in furniture-- among other various operations. But that's to be expected.

BECKY QUICK:

06:13:00:00 Because of the location with--

06:13:01:00 (OVERTALK)

WARREN BUFFETT:

06:13:02:00 It's because of oil.

BECKY QUICK:

06:13:02:00 --so heavily oil.

WARREN BUFFETT:

06:13:03:00 Because of where it is. And-- and you see a lot very quickly.

BECKY QUICK:

06:13:05:00 Well, when you say that the economy hasn't been in-- as strong as you would expect it if you were looking-- four or five months ago, are-- are you talking about from the industrial operations that you watch? Are you talking about from a consumer? Are you talking about across the board? Because Berkshire's much more industrial-focused than it was eight years ago.

WARREN BUFFETT:

06:13:22:00 Yeah, you see it in various industrial parts. And-- well, you see what rail-- rail-- rail was disappointing last year, it got more disappointing as the year went along, and so far this year it's-- it's-- it's been the case.

BECKY QUICK:

06:13:37:00 Although in your-- in your letter, you really laid out the strong performance that Burlington Northern Santa Fe based-- compared to a year earlier.

WARREN BUFFETT:

06:13:43:00 Yeah, but I would have expected the industry to do better, in which case we would have done even better. But we-- we were coming off a bad year, which helps (LAUGH) in comparisons. And-- and we-- we ran the railroad-- a lot better last year than the year before. But overall, the rail industry had a disappointing year. It got poor during the fourth quarter, it's-- it's been poorer in the first quarter of this year.

06:14:09:00 And there again-- some of that's secondary. The-- the biggest thing has been coal, actually. But-- but in oil-- 3% or 4% of our railroad-- car holdings come from oil. But if you look also at frac sand, that's very big. And-- there's all kinds of ways things ripple through the economy.

BECKY QUICK:

06:14:31:00 But back to that-- that key question though, the question that I think investors have been trying to figure out, is that weakness in industrial areas, does that spill over to the broader consumer? And what-- what do you think?

WARREN BUFFETT:

06:14:43:00 Well, look, it-- it-- it hasn't so far, except in certain areas where it's been to more exposed--

06:14:48:00 (OVERTALK)

BECKY QUICK:

06:14:49:00 In Houston, for example or--

WARREN BUFFETT:

06:14:49:00 Yeah, yeah, or North Dakota.

BECKY QUICK:

06:14:50:00 --or North Dakota.

WARREN BUFFETT:

06:14:51:00 Yeah. But-- but that-- that-- that shouldn't really concern investors. I mean, if you're buying-- if you're buying a farm, if you're buying an interest in a local business, you're buying-- an apartment house to rent out in Omaha to people-- you shouldn't be looking at the next six months and trying to decide whether now is the time to buy. You should look at what the asset is likely to produce over time and what you have to pay for it. And if you can buy it cheaper, so much the better. It-- it's-- for people to try and time stocks is crazy.

BECKY QUICK:

06:15:26:00 We're gonna talk a lot more about the annual report-- the annual letter-- in-- in just a few moments, if you don't mind. In the meantime though, we'll send it back to Andrew. And-- Andrew, I know we have more coming.

ANDREW ROSS SORKIN:

06:15:36:00 Thank you-- Becky and Warren. We're gonna have much more from Warren Buffett straight ahead, including Berkshire's fourth quarter results. We're gonna talk about 'em. Plus-- we should tell you right now, U.S. equity futures at this hour are looking down. And Dow Jones, looks like we're gonna open off nearly a hundred points right now. *Squawk* returns with Warren Buffett in just a moment. (MUSIC)

06:16:07:00 (PAUSE IN AUDIO)

* * *TRANSCRIBER'S NOTE: COMMERCIALS NOT TRANSCRIBED.* * *

BECKY QUICK:

06:18:39:00 Good morning again, everyone. And welcome back to Omaha, Nebraska, where we are live with Warren Buffett, chairman and CEO of Berkshire Hathaway. He's just out over the weekend with his annual letter to shareholders, and Warren, how many have you written now? I know you've been running Berkshire Hathaway for 51.

WARREN BUFFETT:

06:18:54:00 Yeah, I-- I-- I've-- I've written 'em all. I-- I didn't use to sign 'em the first half, but (LAUGH) six years, sometimes I would sign-- sign them later on, so-- but-- but I've written them. I've written all 51 of them.

BECKY QUICK:

06:19:06:00 I mean, this is-- a process that-- I think takes you most of the year. You start thinking about the next year's, probably, tomorrow?

WARREN BUFFETT:

06:19:14:00 I'm always thinking about stuff. You know, and I-- I-- I have some-- some things that I might have put in this year. But when I got to s-- 16,000 words, I decided I might be losing people. So I-- I-- I'm sort of-- wiser (?) next year. But-- and-- it's-- it's sort of continuous. It's-- it's-- there are some things that are-- actually just reporting on what happened. And then there's other-- there's a few subjects that I'd like to sort of mouth off on. (LAUGH)

BECKY QUICK:

06:19:37:00 Because you don't get enough opportunity to do that?

WARREN BUFFETT:

06:19:40:00 Well, (LAUGHTER) I-- I think I-- my family would rather have me do it in print than do it on that first (UNINTEL).

BECKY QUICK:

06:19:44:00 Well, let-- let's start off talking with just the report itself in terms of how the businesses are doing. It was a strong year. Profit-- was up sharply. How would you just say-- the overall business is doing right now?

WARREN BUFFETT:

06:19:56:00 Well, most of the businesses did pretty well last year. And-- you know, our goal is to add the fundamental earning power every year. Now, that doesn't mean we think the earnings will go up every year, because sometimes we'll be in recession or something of the sort. But we wanna-- you know, end of the year, we've got more fundamental earning power on an average basis going forward to the start of the year.

06:20:17:00 And-- and since we-- we (UNINTEL) all earnings, we-- we oughta do that. I mean, if you've gotta sell your entire (?) earnings just to stay flat (?). So-- so every year-- last year we were able to add a couple important businesses. They didn't actually get done until after the year end. And they will add to our earning power. And they will try to develop further the earning power of the businesses we already have. And-- and that's the goal year after year.

BECKY QUICK:

06:20:41:00 The big addition for this year will be Precision Castparts.

WARREN BUFFETT:

06:20:44:00 Yeah, I didn't close until about a month after the end of the year. But--

BECKY QUICK:

06:20:48:00 You-- you talk about your powerhouse five, but--

WARREN BUFFETT:

06:20:50:00 Yeah, now we're-- now we're gonna have-- the powerhouse six. (LAUGH) And someday we'll have the powerhouse 80, I hope. (LAUGH)

BECKY QUICK:

06:20:56:00 Yeah. Just in terms of running through those businesses, you did say that Burlington Northern Santa Fe, you expect, will have a weaker year this year?

WARREN BUFFETT:

06:21:05:00 Yeah, I-- I-- I would say that it's highly likely that all the U.S. railroads have lower earnings in this year than last year. And last year was a little disappointing for-- most of them.

BECKY QUICK:

06:21:16:00 But again, that's just this industrial recession that we're seeing?

WARREN BUFFETT:

06:21:19:00 That's just the-- not-- not as many-- not as many carloads you're moving. I mean, you-- every week on Wednesday-- (UNINTEL PHRASE) railroad, you can-- you can look up the figures and it will tell you crushed stone and auto and grain and all kinds of different-- commodities, how many cars moved the freight this week. And-- and you can tell exactly what's going on on the arter-- you can call it the arteries of-- of the economy.

BECKY QUICK:

06:21:42:00 Is-- is-- is that because of this China slowdown? It's hard to imagine that a slowdown in China would hurt grain movement here.

WARREN BUFFETT:

06:21:49:00 No, grain actually hasn't been so bad. No, the-- the big-- the big culprit's been coal. And-- and that's gonna continue. It-- it's exacerbated by the fact that coal stocks at electric utility are at a very high level. They measure 'em in terms of days of usage. And-- and they were low a couple of years ago.

06:22:10:00 And so there was-- somewhat of a catch-up. Now there's somewhat of-- of an undershipment to work off-- excess stocks at the utilities. What partly happened was that our service got bad a couple years ago, a year and a half of what it was (UNINTEL) and utilities got very worried about their stockpiles coming down.

06:22:31:00 So they s-- perhaps overcompensated a little bit and-- make sure it didn't happen again. So coal's-- coal piles are-- high at utilities. But even with the (UNINTEL) factor, coal usually is laying down with utilities. And many utilities can shift between natural gas and coal with a lot of their generation. And natural gas prices being where they are just hurts coal a lot.

BECKY QUICK:

06:22:55:00 Just going through the report, looking through some of the numbers, things caught me off guard with Geico, where the profit fell to \$460 million from \$1.1 billion. What-- what happened there?

06:23:04:00 (OVERTALK)

WARREN BUFFETT:

06:23:05:00 Well, what happened in-- in-- in the insurance business is pretty interesting-- the auto insurance business is that-- for the first time in quite a while-- deaths, and-- and accidents too, but for that figure (UNINTEL) or we've got long histories on. Deaths per a hundred million-- miles driven-- went up. And it's quite interesting.

06:23:30:00 It was-- in the 1930s, it was 15 ti-- you were 15 times more likely to die in an auto accident-- per mile driven than currently. Fifteen times. And-- and then after World War II, the figure got down from 15 per hundred million-- probably to seven or something like that, per hundred million. And then Ralph Nader came along and cars got a lot safer.

06:23:56:00 And now it's just a little over one per 100 million. And that number's just kept going down. So we only had a little over 30,000 auto deaths in 2014. But in 2015, for the first time in a long time, the trend started going the other way. The-- and-- and-- we just got figures from the first nine months. But the frequency of auto accidents went up a lot last year.

06:24:21:00 The number of deaths went up-- to 32,000 deaths, and only about a third are drunk driving. I mean, if you think about it-- almost 10,000 deaths from up into 32,000 come from drunk driving. Half of the people were killed as occupants in a car-- or not wearing seatbelts. But I personally believe that distracted driving, which was listed for about 10% of the deaths in 2014, I'll bet that number went up a fair amount. So--

BECKY QUICK:

06:24:50:00 Distracted driving meaning somebody who's talking on the phone or texting while they're driving--

WARREN BUFFETT:

06:24:52:00 Yeah, yeah. One-- one way or another distracted. And-- and that's harder to-- to get the precise figures on. But-- that was about 10% in 2015, about 3,000 deaths. But in any event, the frequency of accidents, the frequency of deaths per hundred million vehicle miles went up quite significantly in 2015. And that's the first time in a long time. And the cars are safer, so people are not driving as well.

06:25:19:00 And then on top of that-- what they call the severity also went up. So as a consequence, our rates were behind experience-- during the year. I would guess, that this was a guess, for a couple months into the year-- I would guess that now the r-- rates are more adequate for w-- what the current experience is. It I had to bet. And the people at Geico won't like me saying this, but-- (LAUGH) I think-- I think our underwriting experience will be better in 2016 than it was in 2015.

BECKY QUICK:

06:25:53:00 Meaning rates at Geico and probably all the other auto insurers are going up because--

06:25:57:00 (OVERTALK)

WARREN BUFFETT:

06:25:58:00 They've gone up.

BECKY QUICK:

06:25:58:00 They have gone up--

06:25:58:00 (OVERTALK)

WARREN BUFFETT:

06:25:59:00 They've gone-- they've gone up. Yeah. And-- and now you get your policy every six months. So you may not see it for three months until you renew your policy. But-- but rates-- rates will-- have moved up and you will see it as you get renewals. And-- and they've gone up because both-- the frequency of accidents has gone up and the cost of accidents has gone up.

BECKY QUICK:

06:26:20:00 And-- and you think it's tied directly to distracted drivers because they're on their phone?

WARREN BUFFETT:

06:26:23:00 I-- I really think that's gotta be real. In fact, now, there were more miles driven last year too, because gas gets cheap. And that has some effect. And actually when employment gets better, that-- that effects driving to some degree. So there were more miles driven.

06:26:35:00 But beyond that-- people should did not drive as well last year as-- they had the year before. And-- and it's been coming down. I mean, it's-- it's-- when you think about it, it's so much safer to drive a car now than, you know, when I was a kid, for example. And-- and even when I was-- an adult-- cars have gotten a lot safer.

BECKY QUICK:

06:26:56:00 Okay. Warren, there are a lotta things you brought up in your letter. We're-- we're gonna go through many of things, fortunately we have you for the next two and a half hours or so. But I wanna get to less of how the businesses did, but a lot of the other issues that you brought up in the letter too. If you'll-- bear with us though, I think we need to slip in a commercial break. Joe?

JOE KERNEN:

06:27:15:00 Okay, Beck. Thanks, we're gonna take you to quick-- break. But we're-- we'll be-- we'll be right back. The Berkshire Hathaway Chairman and CEO Warren Buffett right now. Though as we head to break, here's a look back at a moment from *Squawk Box* at Warren, from that show back in 2008.

BECKY QUICK:

06:27:32:00 LeBron James of the Cleveland Cavaliers right there. And-- and he asks, "If you were ever to buy a professional sports franchise, what would it be?"

WARREN BUFFETT:

06:27:41:00 It would-- well, if I lived in a big city that had-- that had a top team, I-- I'd-- I'd-- I'd wanna buy it there. I mean--

BECKY QUICK:

06:27:49:00 You would?

WARREN BUFFETT:

06:27:50:00 Yeah. When I was a kid, I thought for sure if I ever got rich that I would be buying a sports team. But-- but I'd rather play on one now. So if there's anybody out there that would like to sign me up, (LAUGH) I'm ready.

06:28:00:00 (PAUSE IN AUDIO)

* * *TRANSCRIBER'S NOTE: COMMERCIALS NOT TRANSCRIBED.* * *

BECKY QUICK:

06:31:17:00 Welcome back to *Squawk Box* here on CNBC, first in business worldwide, I'm Becky Quick and I'm coming to you live from Omaha, Nebraska today. Joe and Andrew are both here in New York too, and we're all ready to jump in on this. Right now, we wanna get back to our special guest this morning, Berkshire Hathaway's Chairman and CEO Warren Buffett.

06:31:33:00 And warren, we talked about a lot of different issues. We have not yet touched on some of your holdings, the big four investments and some of the other stocks that you hold. I was looking through the list in the annual report that shows your top 15 holdings. You've got your cost basis, what it costs you for that, and then what the market valuation for those stocks are today. And it's pretty phenomenal when you look at the huge gains for a lot of the stocks that you've owned for years and years.

06:31:57:00 In fact, if you look through that list, there's only two stocks that have gone down in value from what you paid for them. One is John Deere and the other is IBM. You've been buying that stake for-- five years at this point. I think your cost basis for it was \$13.8 billion and at the end of the year, it was worth \$11.1 billion. That stock has come down pretty substantially, even since the end of the year. Was that a mistake to buy into IBM?

WARREN BUFFETT:

06:32:19:00 Well, I-- I don't think so. But-- but it could be. I mean-- we-- we've owned stocks we lost money in, and sometimes when stocks go down-- we're-- we're wrong and we sell 'em and sometimes-- we think we're right and we buy more. And-- and sometimes it turns out we are. And maybe-- *Washington Post* stock, it-- it's-- it's not in that list because we sold the most of it.

06:32:43:00 But-- but we-- we have about-- a hundred to one profit in it. But it went down by more than a quarter after we started buying it. So-- we-- we coulda lost that, but it's kept buying it and the company bought it (UNINTEL) stock and it all worked out very well. On the other hand, we-- I shouldn't say we, I bought Tesco, (LAUGH) it went down. And it kept going down. And I was wrong about the company.

06:33:07:00 If I'm right about the company, the stock will do fine. And I love buying more. But they go down as-- and-- and when I think I'm right. And-- and-- and if I'm wrong, you know, you-- you sell 'em out and take a big loss. And we've done that on a few stocks and bonds over the years. More often, we-- we've made even more money because they went down initially.

06:33:29:00 I mean, Berkshire itself has gone down 50% three different times since I've been in-- in control of it. And the first time I was able to keep buying. I had some money left from the partnership. And it went from 90 to 40. And that was terrific. I mean, I-- I-- I was buying it.

06:33:48:00 Some friends of mine didn't think it was so terrific. But-- (LAUGHTER) and that's happened two times since then. So-- stock going down is a good thing unless the company itself is-- is losing value. And-- and sometimes that's the case and sometimes it isn't. I don't think it's the case with IBM, but I could be wrong.

BECKY QUICK:

06:34:06:00 Charlie Munger, your good friend said recently that he'd say the jury is still out on whether the reinvention will work. I think he also said that he's neither-- a believer or a disbeliever in-- in IBM and its reinvention. When you start looking at things, should I assume that you're still buying new shares? Or you're kind of waiting to see what happens now?

WARREN BUFFETT:

06:34:25:00 Well, you'll see what we do. (LAUGH) It's quarterly, it'll happen at the end of every quarter. I g-- I get-- I-- I could tell you this, we-- we've-- we've never sold a share of-- of IBM. You mentioned John Deere, but there-- there's other stocks that-- that we buy. And-- and there are stocks we own that have gone down a fair amount. American Express has gone down quite a bit.

06:34:48:00 That-- that's not really different than IBM. I mean, it may be different if (UNINTEL) really paid for it. But it-- once you pay for a stock, it doesn't mean anything. I mean, look-- look-- look, what means something is where the company's gonna be in five or ten years. And-- I think Charlie's neutral, I think that-- IBM will be worth more money. But like I say, I could be wrong. If I'm wrong, you know, we'll-- we'll expect that.

BECKY QUICK:

06:35:12:00 Joe has a question for you on this front as well. Joe?

JOE KERNEN:

06:35:14:00 Yeah, (UNINTEL) Warren, we-- when we have-- analysts on a lot, they-- they-- they do the buy, sell, or hold-- (UNINTEL). You sound like a hold on IBM right now-- just-- just from your body language.

WARREN BUFFETT:

06:35:25:00 Well, I'm-- I'm-- well, I-- I-- no, (THROAT CLEAR) no, I would say this. (THROAT CLEAR) We're a potential buyer. But it-- you know, we're buying different things--

JOE KERNEN:

06:35:33:00 You--

WARREN BUFFETT:

06:35:33:00 --at different times. But--

JOE KERNEN:

06:35:34:00 I understand, Warren--

WARREN BUFFETT:

06:35:35:00 But--

JOE KERNEN:

06:35:35:00 --but-- but, you know, I'm tryin' to read between the lines, 'cause you-- you know, you've got big positions and people key off of what you're doing and you wanna be careful you don't say too much. But if you were buying up in the 170s and it's at 130, you would buy twice as much as your original stake, the dollar cost average now, if you were convinced it was going back to 170.

06:35:53:00 So if in the next filing, we don't see that you bought twice as much, I mean, a real commitment, not just, you know, a couple of thousand shares here and there, then that means that you've soured on it a little bit. And the first we'll hear about it, 'cause you don't wanna telegraph your intentions, the first we're gonna hear is that you sold the entire position. So that's my only point. It sounds like you're a hold.

WARREN BUFFETT:

06:36:12:00 Yeah. No, I-- I-- and I would say this, Joe. You-- you (UNINTEL PHRASE) you say we would buy twice as much, because-- for one thing, we think a long time before we ever go over 10% of a company. Once we go over 10% of a company, A) we have to report every two days, within two days every transaction.

06:36:30:00 Secondly, we can't-- we can't change our mind for a year and sell on these stocks and-- and have a short (UNINTEL) profit where we have to give it all back to the company. I mean, you'd become in a much different position-- than 10%. So-- so if you would have to s-- buy twice as much now, I think that would take us to 20% or-- or something of the sort. But--

JOE KERNEN:

06:36:48:00 All right, but if you could-- okay, here's my point though. Or-- there's a lot of investors out there, Warren that-- that piggyback off of a lotta things that you do. And I'm sure a lot of 'em bought IBM based on that. Would it be your recommendation that all these people that followed you into IBM double down on their IBM position right now to try and make their money back? Or would you-- urge them not to do that?

WARREN BUFFETT:

06:37:09:00 I'm not an investment advi-- I wouldn't-- ever im-- urge them to do anything based on what we-- what we do. I mean, the-- it-- it-- if they wanna do what Berkshire does, they-- they probably should buy Berkshire. But I am not into-- I'm not an investment adviser. You know, it's intellectual property that belongs to Berkshire what we're doing in the-- securities.

06:37:28:00 So we-- we have no desire to encourage people to buy or sell stocks at all, except I will tell people that over time, I think they will do very well by buying common stocks. And I think the best thing for most of 'em to do is to buy an index (UNINTEL).

06:37:44:00 I-- I-- I-- I think they're making a big mistake if they're piggybacking me or-- or some other people that they may-- whose names appear in the paper. They're not-- that is not a great strategy. A great strategy is just to buy stocks consistently over a lifetime and not worry too much about whether they go up or down in any given month or year.

JOE KERNEN:

06:38:04:00 Warren-- let me just give--

WARREN BUFFETT:

06:38:04:00 Well, no, (UNINTEL PHRASE) that's what I tell my wife to do in my-- in-- in my-- in my will. You know-- she's gonna put 90% in-- in-- in-- in an index fund and 10% of government. So I told a lot of other people to do that over the years, and they've done very well.

JOE KERNEN:

06:38:18:00 Warren, let me just get one crack to battle on-- on the IBM issue-- which is this, just to-- to the extent that investors want to understand your time horizon, or whether this-- turns right or turns wrong, at what point would you say, if-- if it were-- if it did turn wrong, what is it-- what would be the trigger at which you'd say, "You know what? Okay. Maybe I-- maybe I did make a mistake"?

WARREN BUFFETT:

06:38:40:00 Well, I was wrong on Tesco, for example. And I was right in recognizing that. You know, and-- and they-- they were doing certain things. I thought when they came into the United States, I thought that was a big mistake. But I did not anticipate that they would lose the position that they had in the U.K., for example, to the same extent.

06:39:00:00 I was late in recognizing that. We'll sell a stock for one of two reasons, if we need-- if we need the money to buy something that we like even better. Now that's not easily-- that's almost never a case at Berkshire, because the money keeps coming in. So-- that wasn't the case 20 or 30 or 40 years ago. But it's not the case now. And that-- now we'll only sell something basically if we think the-- the company is not worth what it's selling for.

BECKY QUICK:

06:39:25:00 Hey Warren, let me throw in a question from a viewer on-- on IBM sa-- oh, Andrew, go ahead, I'm sorry.

ANDREW ROSS SORKIN:

06:39:30:00 Oh, the only-- I just wanted to--

06:39:31:00 (OVERTALK)

WARREN BUFFETT:

06:39:32:00 The last thing--

ANDREW ROSS SORKIN:

06:39:34:00 The-- Warren--

WARREN BUFFETT:

06:39:33:00 Go ahead.

ANDREW ROSS SORKIN:

06:39:34:00 The only-- the only cr-- follow-up I wanted to ask was actually about Ginni Rometty and-- and the management of the company, which is to say, how much of your faith in the company is in her, and how much of it is in IBM proper, meaning the-- the institution that is IBM?

WARREN BUFFETT:

06:39:49:00 Sure. Well, you'll have to have faith in both. But-- but stronger (UNINTEL) always is wanting to be the business itself. I mean, because a human who's running it, you know, something could happen to them tomorrow. So you-- you love the idea of loving a manager that's terrific. But you-- you always have to have basic faith in the business.

06:40:08:00 We love the fact that Matt Rose was running the NSF when we (UNINTEL) that, and that's just buying a stock. It-- we'd buy the whole (UNINTEL) and you have the whole company. But we really have-- we have to like the business. And then we also have to feel good about the person running it. But the business overwhelmingly is the most important thing. Because people come and go.

BECKY QUICK:

06:40:29:00 Warren, let me follow up with a question from a viewer on IBM as well. Daniel Cabrall (PH) wrote in. "Have any of the companies under Berkshire's umbrella gained any competitive advantage by using IBM Watson so far?"

WARREN BUFFETT:

06:40:42:00 We have. At Geico, we're doing a fairly elaborate-- experiment with-- with Watson. And with Watson, you spend a considerable amount of time teaching Watson. I mean, Watson-- Watson does not come knowing a thing about insurance. (LAUGH) And-- and-- never had an insurance policy before we had him and-- and-- he was great at *Jeopardy*.

06:41:06:00 But-- so our job-- and IBM's job is to educate Watson-- in all aspects of insurance. I mean, Watson learns. And-- and we have been working with Watson-- quite a while now. And we've got some big tasks in mind for Watson. And we see progress along that line. But it-- it's just like in medicine. I mean, the-- you know, if you've got Memorial Sloan Kettering starting to feed information about cancer into Watson, the first day, it-- he-- Watson knows nothing, you know? And it's-- it's just a piece of machinery.

06:41:40:00 And-- and after a while, it has this ability to-- to remember every article that's ever been written and re-- really-- you know, do it in-- in a second or two and-- and take information from tens of thousands of w-- whether it's X-rays or recent tests or whatever it may be and-- and-- and-- it comes in and incredibly valuable piece of-- of-- or storage of information and then aide in decision making. And that can be very valuable in insurance, but it's not valuable the first day or the second day. And--

BECKY QUICK:

06:42:14:00 So is Geico paying IBM or is IBM paying Geico?

WARREN BUFFETT:

06:42:16:00 Well, it's an interesting thing. I mean, I'll the you, they probably would like us to pay them and we would like them to pay us, because we're both contributing to it. It's a partnership initially. And it has to be a par-- it's a partnership with MD Anderson or-- or Sloan Kettering or any-- both sides are contributing a lot to it.

06:42:31:00 I mean, you-- you need-- you need a lot of data. You need just a lot of human intelligence-- because you have to decide what-- what's (UNINTEL PHRASE). You know, you have language problems and all these things. But you've got-- you've got quite-- quite a scoring partner-- at the end. And obviously, we've put money into it, IBM's put money into it. And we think that there could be a very big payoff.

BECKY QUICK:

06:42:59:00 Okay, Andrew?

ANDREW ROSS SORKIN:

06:43:02:00 Thank you for that and thank you w-- Warren. We're gonna get back to Warren Buffett-- in just a moment. But first, before we do that-- if you went to early, we're gonna tell you everything you need to know about last night's Oscars in just 60 seconds. We're gonna head to a break, a quick check on what's happening in European markets right now. We're back in just a moment. (MUSIC)

06:43:30:00 (PAUSE IN AUDIO)

* * *TRANSCRIBER'S NOTE: COMMERCIALS NOT TRANSCRIBED.* * *

ANDREW ROSS SORKIN:

06:46:42:00 Welcome back. U.S. equity futures are down this morning. They were down 90 last time we looked-- 61, now they look better on the Dow Jones. The S&P has indicated down just under eight points and the NASDAQ down about 22. And here's a check on the economic calendar that we'll be looking at for this week.

06:46:57:00 Look for February, Chicago PMI and January, pending home sales. On Tuesday, we're going to get to ISM Manufacturing index. In February, auto sales. Wednesday, it's a February A.D.P. report in the fed's page book. Thursday, look for revived fourth quarter productivity and labor cost, in the February ISM services index. And then on Friday, no, no, no. Are you kidding me? Seriously? Is that a new break--

JOE KERNEN:

06:47:26:00 Yeah.

ANDREW ROSS SORKIN:

06:47:27:00 It's-- it's-- it's-- it's the-- the-- there's a big jobs number again?

JOE KERNEN:

06:47:29:00 Uh-huh (AFFIRM).

ANDREW ROSS SORKIN:

06:47:31:00 God, that just seems like we just did that there, and you know, it's an even shorter month.

JOE KERNEN:

06:47:34:00 Always feels that way.

ANDREW ROSS SORKIN:

06:47:35:00 It's a shorter month--

06:47:36:00 (OVERTALK)

ANDREW ROSS SORKIN:

06:47:37:00 --but that is really fast (UNINTEL PHRASE). Okay, (UNINTEL PHRASE) I'd give you an update on what happened-- with the Oscars overnight for those of you who did not stay up late enough. The biggest award of the night, Best Picture, went to *Spotlight*, the film about *The Boston Globe's* investigation into the catholic priest abuse scandal. Also one Best Original Screenplay. Quick shout out to Josh Singer, who's a friend of mine, who's one of the-- writers of that-- with Tom McCarthy.

06:48:00:00 Also in the Best Actor category, Leonardo-- Leonardo DiCaprio honored finally for his performance in-- *The Revenant*, it was DiCaprio's first Academy Award win after six nominations. A lotta people waiting around for that. *The Revenant* also won best director honors for Ale-- Alexander-- Iñárritu. I always-- it's always hard for me to--

06:48:19:00 (OVERTALK)

JOE KERNEN:

06:48:20:00 We had it ready to go and you mess up the Alejandro.

ANTHONY ROSS SORKIN:

06:48:23:00 Alejandro, Alejandro--

JOE KERNEN:

06:48:23:00 'Cause you were focusing on the Iñárritu.

ANTHONY ROSS SORKIN:

06:48:25:00 I know, I know.

06:48:26:00 (OVERTALK)

ANTHONY ROSS SORKIN:

06:48:27:00 It's a tough name. But--

JOE KERNEN:

06:48:28:00 We should give this man a lotta credit 'cause it's a rare back-to-back win for Iñárritu. He won both-- dire-- he w-- he won Best Director (UNINTEL) for last year-- for *Birdman*, a movie that you loved.

ANTHONY ROSS SORKIN:

06:48:37:00 I-- I did--

06:48:37:00 (OVERTALK)

JOE KERNEN:

06:48:38:00 You know, and people thought that this film should have also won--

06:48:41:00 (OVERTALK)

JOE KERNEN:

06:48:41:00 --Best Film as well. I don't know what's your award for Best Film.

ANDREW ROSS SORKIN:

06:48:44:00 Well, I'll tell you my other favorite film.

JOE KERNEN:

06:48:46:00 *The Room* was--

ANDREW ROSS SORKIN:

06:48:47:00 I love her. Brie Lar-- Brie Larson-- won the Best Actress Oscar for her performance in *Room*, which you know I felt was one of the great films of the year, heavily favored after sweeping award season. This is-- Larson's first Academy Award. Also, Chris Rock hosted the award show, amid controversy that no African Americans were nominated in any of the major categories. He addressed the controversy right off the bat.

CHRIS ROCK:

06:49:11:00 I'm here at the Academy Awards-- other-- otherwise known as the-- White People's Choice Awards. (LAUGHTER) And you realize, if they nominated hosts, I wouldn't even get this job. (LAUGHTER) That's right, y'all be watchin' Neil Patrick Harris right now.

BECKY QUICK:

06:49:30:00 There were a lot of funny lines from last night.

JOE KERNEN:

06:49:33:00 Right.

ANDREW ROSS SORKIN:

06:49:33:00 A lot I-- we can't say some of them.

JOE KERNEN:

06:49:35:00 How late? You were up till midnight? Were--

ANDREW ROSS SORKIN:

06:49:38:00 No, no, I didn't stay up the whole time.

JOE KERNEN:

06:49:39:00 You didn't?

ANDREW ROSS SORKIN:

06:49:39:00 I didn't. I want-- I went to bed at 11:00. No, no, no. I only made it (UNINTEL PHRASE). Yeah, about halfway--

06:49:45:00 (OVERTALK)

ANDREW ROSS SORKIN:

06:49:46:00 --about halfway through. They didn't start it until 8:30. I had to (UNINTEL) with the, you know, watching the dresses on the-- red carpet--

JOE KERNEN:

06:49:53:00 Red carpet.

ANDREW ROSS SORKIN:

06:49:53:00 --and then you're finished. You're like, "I've seen it--"

06:49:55:00 (OVERTALK)

ANDREW ROSS SORKIN:

06:49:55:00 "--seen enough."

JOE KERNEN:

06:49:57:00 Hopefully.

ANDREW ROSS SORKIN:

06:49:57:00 Yeah. And then I just (UNINTEL PHRASE).

JOE KERNEN:

06:49:59:00 Who was your best dressed for-- I know you--

06:50:02:00 (OVERTALK)

JOE KERNEN:

06:50:04:00 Okay, well--

ANDREW ROSS SORKIN:

06:50:05:00 Mar-- I saw Marcus (UNINTEL).

JOE KERNEN:

06:50:07:00 Yeah. The (UNINTEL PHRASE) we'll be with you first (UNINTEL) there was a lot of basketball (UNINTEL). We'll have to ask Andrea about that Creighton too, Creighton just walloped Saint John's-- yesterday. And-- Chris Mullin I think had trouble, a lotta stuff happened. But we'll have much more from Warren Buffett in Omaha. Everybody lost this weekend, everybody, Andrew, I mean Steve (UNINTEL) and-- Ohi-- Iowa--

* * *TRANSCRIBER'S NOTE: COMMERCIALS NOT TRANSCRIBED.* * *

ANDREW ROSS SORKIN:

06:53:35:00 We are really ahead of the game on the oil story. A year and a half ago, we were at Midland, Texas, up at Williston, North Dakota. The initial reaction to oil was, "Hey, good news, low oil means low gas, everything's fine." I think when you dug into the story and realized hundreds of thousands of jobs either lost or at risk, that sort of changed the narrative. But also when you look at the debt that is behind the story, hundreds of millions of dollars in debt that is now at risk. (UNINTEL PHRASE) says, "No cuts, no cuts, no cuts." That sent oil down. And sent the stock market lower as well.

BECKY QUICK:

06:54:08:00 Good morning again everybody and welcome back to a special edition of *Squawk Box*. We are live in Omaha, Nebraska, with Warren Buffett, the chairman and CEO of Berkshire Hathaway. And Warren, in your annual letter

to shareholders, you point out that-- the annual meeting this year is gonna be a little different in-- in-- in that for the first time ever, you are allowing it to be webcast.

WARREN BUFFETT:

06:54:26:00 Right.

BECKY QUICK:

06:54:28:00 Why are you doing that?

WARREN BUFFETT:

06:54:28:00 Well, for two reasons. One is we-- we sort of maxed out at Omaha last year. I-- we sent over 40,000, it may have been 45,000. And the center where we have it, we used I think five overflow rooms and filled those and then we actually had to use a couple rooms in this hotel. So and the-- and the hotels were all full. So we're-- we're pretty close to-- what we can handle physically in (UNINTEL).

06:54:54:00 And then the second reason is that-- as I said in the letter-- well, you can have-- a CEO that's 85 and you have-- and his sidekick is 92-- it's probably only fair that the shareholders could get-- get a sense to actually see what he's sitting there doing and cutting out paper dolls or-- (LAUGHTER) or whether you can hold your (UNINTEL) \$5 or \$6 with a lot of questions and talk intelligently about the business.

06:55:21:00 I-- I like to see our managers in person. And particularly as they get old. I mean, we've had a couple that-- have drifted off into la la land-- at-- at Berkshire. (LAUGHTER) And-- and then a couple (UNINTEL) I didn't know it. I mean-- so there's nothing like semi-per-- semi-personal contact. And they're the people that go on business around the world. So we'll give it a shot this year and see what-- see what happens.

BECKY QUICK:

06:55:46:00 Okay, other than that, it's business as usual though for the annual meeting?

WARREN BUFFETT:

06:55:48:00 It'll be business as usual. Yeah.

BECKY QUICK:

06:55:50:00 All right, Warren Buffett is our special guest this morning. We are fortunate enough to have him with us for the rest of the program. When we return, we have much more to come from Mr. Buffett, including some questions

from viewers that were submitted on Facebook, on Twitter, and on Instagram. You are watching *Squawk Box* on CNBC, the first in business worldwide. Stick around, a lot more to come this morning. (MUSIC)

* * *TRANSCRIBER'S NOTE: COMMERCIALS NOT TRANSCRIBED.* * *

CNBC NBC UNIVERSAL

"WARREN BUFFETT"

INTERVIEW WITH WARREN BUFFETT

CORRESPONDENT: BECKY QUICK, JOE KERNEN AND

ANDREW ROSS SORKIN

PRODUCER: LACY O'TOOLE

MEDIA ID: HOUR 2

MALE VOICE:

06:59:36:00 Warren's annual letter to shareholders is out. And we have a special one on one interview with the Oracle of Omaha. His thoughts on the global economy, oil.

WARREN BUFFETT:

06:59:47:00 Overall it looks good for an oil importing country, which we are, the lower oil prices.

MALE VOICE:

06:59:53:00 China and investing in turbulent markets.

WARREN BUFFETT:

06:59:54:00 You can't predict what stocks'll do. But-- in-- in the short-run. But you can predict that American business will do well over time.

MALE VOICE:

07:00:02:00 Warren Buffett answers the questions that matter most to your money as the second hour of *Squawk Box* begins right now. (MUSIC)

BECKY QUICK:

07:00:23:00 Good morning, everybody. And welcome back to *Squawk Box* here on CNBC. First in business worldwide. I'm Becky Quick along with Joe Kernan and Andrew Ross Sorkin who are back in New York City. I'm in Omaha, Nebraska this morning with Warren Buffett. He is the chairman and CEO of Berkshire Hathaway. Warren's answering your questions this morning and we have plenty of them to get through. But keep them coming. We're gonna try to get to as

many as we can on the air today. First though, let's head back to New York. That's where Joe has a look at the markets this morning and Joe good to see you again.

JOE KERNEN:

07:00:51:00 Thanks good to see you too-- Becky. I hope you're-- you're-- you feelin' better and now you're traveling again. But your--

BECKY QUICK:

07:00:58:00 I'm feeling much better.

JOE KERNEN:

07:00:58:00 --are you--

BECKY QUICK:

07:00:58:00 I'm feeling much better. I blew my nose a lot before I descended on the plane but I'm good.

JOE KERNEN:

07:01:04:00 --yeah. And-- and you got the ear thing with that. Chewin' gum sometimes-- some-- sometimes help a little. We'll get-- we have to-- you have to prepare Warren. I'm gonna ask him about Creighton 'cause I know there's another Xavier Creighton--

BECKY QUICK:

07:01:14:00 Uh-oh.

JOE KERNEN:

07:01:16:00 --coming up. And Creighton won last time. And that's-- that's pretty good. Does he think they're gonna make it in the tournament? When-- when I get back you'll find-- have an answer for me whether they're gonna make it. Let's check the markets right now.

07:01:24:00 The future's-- pointing to a lower opening-- on Wall Street. Last we saw they're down about-- I think they were down 90 and then 60 and now 45. So you've gotten a little bit better. Although whether Europe is improving-- or not. Oil was down but not significantly now to unchanged. And that may be why the market's-- improving a little.

07:01:41:00 In fact-- ICE-- Brent Crude is actually up-- up a quarter. Actually and we just saw-- WTI turn up as well. And that can-- could portend that-- we firm up in the stock market here. The ten-year note, right now 174, 175 which is just-- amazing. Look at that sell off at the end. I wonder what that means. I wonder what we see on Friday in the jobs report and whether it indicates that there's-- any weakness in the labor market or whether it continues strong. Last month wasn't so great given what we saw in the previous month. So we'll see whether we're getting up to that point where there aren't enough people for a lotta the jobs that are there. And then we start thinkin' about, you know, wages and it'd be good if they went up. But then again you start worrying about there are some people that think inflation is not as (UNINTEL) as-- as you would think given where commodity prices.

ANDREW ROSS SORKIN:

07:02:29:00 We're gonna have to ask Warren about that.

JOE KERNEN:

07:02:31:00 You can ask that.

07:02:33:00 (OVERTALK)

ANDREW ROSS SORKIN:

07:02:33:00 His view on that. In the meantime, we have some other headlines for you at this hour. China Central Bank cutting the reserve requirement ratio. The amount of the cash the country's bank have to hold-- now. This is an attempt to calm investor's jitters over the world second largest economy.

07:02:45:00 And Google-parent company Alphabet could reportedly gain at least \$3.5 billion in new tax benefits if Intel wins its international tax dispute with the IRS. This coming according to the *Wall Street Journal*, the case involving share-based compensation.

07:02:57:00 At least 20 companies including Microsoft and eBay have said they're monitoring the outcome of that case. And this week is chock full of economic data, topped by Friday's job report. Today look for February Chicago PMI and January pending home sells.

07:03:12:00 Tomorrow we get the IFM manufacturing index and February auto sales. Wednesday it's the February ADP report and the Fed's beige book. Thursday jobless claims and then on Friday it's the biggie, the February non-foreign payrolls report. In the meantime, let's get back to Becky Quick who is in Omaha this morning. Becky.

BECKY QUICK:

07:03:31:00 All right, Andrew, thank you very much. Warren, before we start on everything else, why don't you answer Joe's question? Do you think Cleighton's gonna make it? (LAUGHTER)

WARREN BUFFETT:

07:03:39:00 Well-- I sure hope so. But I-- I'll g-- I'll give Joe advance word on something that-- our managers haven't heard this yet. Our employees haven't heard it. Some of our directors know about it. But we're going to announce-- we were gonna announce in a-- to our managers in about an hour.

07:03:56:00 This year-- if you're employed by Berkshire Hathaway or any of its subsidiaries-- tomorrow on-- on-- on-- on March 1st you're eligible for the ultimate office bracket contest. And any employee of Berkshire can put in a bracket. Doesn't cost 'em anything-- website we've got for it. And if they-- they are the one that picks the latest number of consecutive games correctly as they're played-- they will win \$100,000.

07:04:29:00 (OVERTALK)

BECKY QUICK:

07:04:30:00 It doesn't have to be a perfect bracket?

WARREN BUFFETT:

07:04:31:00 No, no, doesn't have to be anything. It d-- it just goes further-- if-- somebody wins. They get \$100,000-- if-- if they tie they split it but-- but-- but-- well, and we'll-- after every game we'll report how--

07:04:42:00 (OVERTALK)

WARREN BUFFETT:

07:04:43:00 --and maybe what company they work for. But if they make it to the sweet 16-- if they go through two-- two-- bracket tests--

07:04:54:00 (OVERTALK)

JOE KERNEN:

07:04:54:00 Get 'em all.

WARREN BUFFETT:

07:04:54:00 --and they-- they-- they get to the sweet 16 only they get a \$1 million in--

07:04:59:00 (OVERTALK)

WARREN BUFFETT:

07:04:57:00 Rest of their life.

MALE VOICE:

07:05:00:00 No. (LAUGHTER) Oh God.

07:05:01:00 (OVERTALK)

BECKY QUICK:

07:05:02:00 Warren?

WARREN BUFFETT:

07:05:03:00 No they-- oh (UNINTEL) all of the brackets aren't as--

07:05:07:00 (OVERTALK)

WARREN BUFFETT:

07:05:07:00 They're not required to do anything.

07:05:09:00 (OVERTALK)

WARREN BUFFETT:

07:05:10:00 We're gonna (UNINTEL).

07:05:11:00 (OVERTALK)

JOE KERNEN:

07:05:11:00 That's amazing.

WARREN BUFFETT:

07:05:11:00 Breaking news. Our managers don't know about it. It's-- it's-- it's-- it's to go out-- we were gonna send it out in about an hour or so.

07:05:16:00 (OVERTALK)

JOE KERNEN:

07:05:17:00 Can't you c--

07:05:17:00 (OVERTALK)

WARREN BUFFETT:

07:05:18:00 --and then we're gonna pass it--

07:05:18:00 (OVERTALK)

JOE KERNEN:

07:05:18:00 Warren, can't a couple other people get in on this? Becky, I mean, to e-- I-- I'm probably not gonna get all 60 right. Let me try though. I-- I've been watch-- I mean, I'm prepared this year.

WARREN BUFFETT:

07:05:29:00 You don't have to get all-- you only-- you don't have to get all 60-- three games right. You only have to get 48 games right to get a million a year the rest of your life.

JOE KERNEN:

07:05:37:00 No that's what I mean. But I--

07:05:37:00 (OVERTALK)

JOE KERNEN:

07:05:38:00 --but I wanna be able to tr-- give-- give a special gift sensation to let me try. Can I be part of that without being with GEICO employee?

BECKY QUICK:

07:05:45:00 Hire us. (LAUGHTER)

WARREN BUFFETT:

07:05:47:00 I'll tell you what I do, I'll underwrite you personally. (LAUGHTER) Yeah. I-- I'll underwrite you personally.

JOE KERNEN:

07:05:50:00 I think he's say-- I mean--

07:05:53:00 (OVERTALK)

WARREN BUFFETT:

07:05:54:00 Well, forget about Berkshire Hathaway playing. I'll pay \$1 million a year for the rest of your life.

BECKY QUICK:

07:05:56:00 Are you suggesting that Joe's gonna choke?

WARREN BUFFETT:

07:06:00:00 I-- the only thing is you can't check with Watson. You have to do this independently.

JOE KERNEN:

07:06:05:00 Okay. He's actually--

07:06:06:00 (OVERTALK)

BECKY QUICK:

07:06:07:00 Wow.

JOE KERNEN:

07:06:06:00 --last year that-- your-- your money's safe, Warren, believe me. And I-- and-- you-- you never know advance when your money's--

WARREN BUFFETT:

07:06:12:00 No.

JOE KERNEN:

07:06:13:00 --safe. I know that. (COUGH)

WARREN BUFFETT:

07:06:16:00 Well, but somebody could win the \$100,000 for sure.

JOE KERNEN:

07:06:18:00 Yes. That's true.

WARREN BUFFETT:

07:06:19:00 And my assistant, Debbie Bosanek, her-- her son works for the Nebraska Furniture Mart and his girlfriend works for the Furniture Mart. So they're gonna have three entries, you know, among them. And-- and bringing a lotta fun outta this. Particularly if we go through the games.

07:06:29:00 'Cause when we get-- we're gonna announce how many are live after each game. And then when we get down to where there's maybe 100 or something like that, well, how-- how many are from GEICO and how many are from the (UNINTEL) and so on. And then it'll be a lotta fun.

07:06:42:00 (OVERTALK)

BECKY QUICK:

07:06:42:00 But last year you did the \$1 million bracket challenge.

WARREN BUFFETT:

07:06:46:00 That was two years ago.

07:06:48:00 (OVERTALK)

BECKY QUICK:

07:06:48:00 Two years ago. Was it two years ago? Is that what this came out of?

07:06:49:00 (OVERTALK)

WARREN BUFFETT:

07:06:50:00 Well, yeah, I-- I just thought about it. And it seemed like this would be a lotta fun. And incidentally we are closing on the purchase of Duracell today. So all the Duracell employees tomorrow will be--

JOE KERNEN:

07:06:59:00 Will know.

WARREN BUFFETT:

07:07:00:00 --eligible--

JOE KERNEN:

07:07:00:00 Wow.

WARREN BUFFETT:

07:07:01:00 --for this.

JOE KERNEN:

07:07:02:00 That's, like, a lot.

WARREN BUFFETT:

07:07:03:00 Yeah.

JOE KERNEN:

07:07:04:00 That's awesome. All right, Warren--

07:07:06:00 (OVERTALK)

JOE KERNEN:

07:07:07:00 --while we're wa-- while we're wasting time-- the only other thing-- the--

07:07:11:00 (OVERTALK)

JOE KERNEN:

07:07:12:00 --to ask you I-- I just-- the new GEICO commercial, I-- how do you do it? You've got 20 of the best commercials. And the-- the-- and the latest one is Tarzan and Jane. And you've seen Jane ask the chimpanzee whether he knows where the-- where the-- where the (UNINTEL). And he goes-- you-- you've seen that one, right? And then Peter Pan, greatest all-time-- greatest all-time commercial. They just do it again and again and again. It's unbelievable.

WARREN BUFFETT:

07:07:36:00 Well, so just remember, the ones you like-- those were my ideas. (LAUGHTER) They're some clunkers in there, that's Charlie's.

JOE KERNEN:

07:07:43:00 The clunkers, exactly. There is a couple. But I love the-- some of (LAUGHTER) 'em-- make up for all the other ones. All right, Becky, get back to the markets. But we digressed. But I love-- I love--

07:07:53:00 (OVERTALK)

BECKY QUICK:

07:07:52:00 About the markets. I do. Let's-- and that is breaking news, you're right, Joe. Warren, let's talk a little bit more about the economy. We touched on this before. But for people who are just tuning in there have been so many questions. I can't tell you. I've heard from more people in the last few months wanting to know your view on the markets-- than just about any other time that you've sat down with us. People are very unnerved by what's happening. What-- what do you tell them, first of all, when they wake up in the morning and they see-- you know, the-- the beginning-- the worst beginning of the year that we've ever seen in stocks?

WARREN BUFFETT:

07:08:23:00 Well, but that's because we're on some calendar or something. I mean, there've been way worse months. There have been way, you know, you have October 19th, 1987, what was it 22% up and down in one day or something. It, you know, the-- the-- the-- people buying and selling (UNINTEL) but they basically don't know what day of the week it is or what hour or anything like that.

07:08:41:00 And-- and they react to news, they react to the market itself. The very fact that we talk about the market, you know, on bad days and everything may tend to accentuate it for all I know. Who-- who-- who knows? It really doesn't make any difference.

07:08:55:00 I mean, if I-- if I owned a McDonald's stand here in Omaha I would not get a quote on it every day. You know, I would-- I would try to make my service the best. You know, I would-- I would hope too many competitors didn't move in close to me. And-- and I would hope that McDonald's would great advertising and came up with some new products occasionally. And what I would think about is how's this going to work over five years or ten years. I mean, people gonna keep eating hamburgers, they're gonna like ours and all of that sort of thing. And you'd be better off in stocks if you did not get a quote on them.

07:09:24:00 You know, and-- and quotations cause people to do things they wouldn't otherwise. If I-- I've got this farm, 40 miles in there. If I'd gotten a quote on it every day since I bought it 30 years ago I mighta done something dumb. I mean, as it is, I've never had a quote on it. And it produces a little more every year and generally the prices (UNINTEL) products-- so focusing on the prices and what they're doing is a terrible way to go-- to invest in-- in businesses.

BECKY QUICK:

07:09:51:00 You said in the annual letter this year that Berkshire Hathaway is obviously an-- an-- a interest-rate-sensitive company. And therefore consequently-- when rates go up the company will do very well. Do you think we're ever gonna see rates going up again?

WARREN BUFFETT:

07:10:03:00 Well, i-- that-- that's-- besides-- what's happened with interest rates is really extraordinary. I mean, it-- you can go back and read everything Keynes wrote and everything Adam Smith wrote or Ricardo wrote or (UNINTEL) wrote or you name it and Paul Samuelson.

07:10:19:00 I mean-- you won't see a word of-- in my view-- anything I've ever seen-- about sustained negative interest rates. I mean, we-- really something the world hasn't seen. It does have the effect of making all assets more valuable. I mean, interest rates are like gravity in valuations.

07:10:33:00 I mean, if interest rates are nothing, you know, values can be almost infinite. If interest rates are extremely high that's a huge gravitational pull on values. And we had that in the early 1980s. So we're going into this period-- well, Berkshire Hathaway is sitting with billions of dollars of euros in an insurance company that we have in Europe. And they will bear a negative rate. I mean, we would be better off if we had a big mattress here (LAUGHTER) if we could spin all this stuff.

07:11:04:00 And-- and if I could just find the person who I trusted to sleep on the mattress. You know, that's what we would do. If we have a billion of euros at minus 35 basis points that's, you know, these-- on a billion it would-- it would be three and a half million euros a year that it's costing us just to have that.

07:11:24:00 Well, that means you don't wanna collect your receivables. I mean, why would you wanna collect your receivables going into a negative-- you know, it-- it-- it distorts everything. Now there's a good reason why they're doing it. But nobody has really gone through an extended period like this with. We do not know how this movie plays out.

BECKY QUICK:

07:11:42:00 So when you start thinking of potential scenarios how do you play it out?

WARREN BUFFETT:

07:11:47:00 Well, it, I mean, we thought when we started this that it would end fairly soon. And then Europe in particular-- needed further, you know, further-- (UNINTEL) (LAUGH) in the arm. And-- they've extended it. And we can't get too far away from it. We talked about that a year ago, the problems of this country raising rates while Europe was at negative rates and what that might do to the dollar and what that does to trade and what trade does to business.

07:12:10:00 And-- in economics the most important thing to remember-- important in other areas in life-- but after anything that happens if somebody tells you, "This is gonna happen," you gotta say, "And then what?" There's always-- it's like in physics or anything else, there's always an and then what. So the question I always ask myself, "And then what?" And in terms of the say no interest rates what I say and then what I don't know the answer. (LAUGH) And you want to know the answer. I-- I'll ask him next time I see him.

BECKY QUICK:

07:12:34:00 Dean Shepardson wrote something today-- where he-- he takes a look at how quickly wages are rising and how quickly inflation is coming up. And he said in-- in inflation in particular if-- if you just look at the same average inflation we've seen over the last three months or so, if that continues we're gonna be hitting the Fed target by October. That's two years ahead of time-- from the Fed's own predictions. And he worries that we're gonna be growing rapidly at these points in those particular areas. And that the Fed's already behind the curve for not raising rates faster. Do you think about something like that or--

WARREN BUFFETT:

07:13:08:00 Well, I-- I don't know. I don't know what-- I don't-- I don't pay any attention to what economists say frankly. (LAUGHTER) Well, think about it, I mean, you-- all these economists with 160 IQs and spending their life studying it. And can you name me one super wealthy economist who's ever earned money out of securities? No. I mean, just go down the list now.

BECKY QUICK:

07:13:27:00 No.

WARREN BUFFETT:

07:13:28:00 Now Keynes-- Keynes actually in his early years tried to make money in stocks by predicting what business would do. And he gave it up. And then he went over to a Graham-type approach. I mean, it's-- it's very interesting to read his history on this 'cause he thought he could-- by looking at various economic variables pick what he called the credit cycle and make a lotta money.

07:13:48:00 And-- and he went broke a couple times doing it. Had to borrow from people. And then he settled on buying good businesses cheap that he understood and concentrating his investments. And he did very well. It's an interesting (LAUGHTER) history. But if you-- if you look at the whole history of them, you know, they don't make a lotta money buying and selling stocks. The people who buy and sell stocks listen to 'em which is-- I have a little trouble with that.

BECKY QUICK:

07:14:09:00 Okay. Forget I asked that. (LAUGHTER) We will have more from Warren coming up in just a bit. Joe, we'll send it back over to you.

JOE KERNEN:

07:14:16:00 All right-- Beck. Coming up, we're gonna talk politics finally-- with Warren Buffett. (MUSIC) You saw what the one guy said and-- don't-- candidates shouldn't accept money from weirdo billionaires.

ANDREW ROSS SORKIN:

07:14:27:00 Yes.

JOE KERNEN:

07:14:29:00 From weirdo billionaires. I don't know-- yeah, I-- when Warren hears that I wonder if he thinks that those are the other guys or whether he, you know, whether you wonder. I don't know who this guy (UNINTEL) but we'll talk about that. And we're gonna ask which candidate has the best plan for the economy. *Squawk Box* will be right back.

07:14:48:00 (COMMERCIAL NOT TRANSCRIBED)

JOE KERNEN:

07:15:55:00 (MUSIC) We are really ahead of the game on the oil story. A year and a half ago we were in Midland, Texas, up at Williston, North Dakota. The initial reaction to oil was "Hey, good news. Low oil makes low gas. Everything's fine." I think when you dug into this story and realized hundreds of thousands of jobs either lost or at risk. That sort of changed the narrative. But also, I mean, look at the debt that is behind this story. Hundreds of billions of dollars of debt that is now at risk. (UNINTEL) said no cuts, no cuts, no cuts. That sent oil down and sent the stock market forward as well.

07:16:26:00 (COMMERCIAL NOT TRANSCRIBED)

BECKY QUICK:

07:17:27:00 Welcome back to *Squawk Box*, everybody. We are speaking to billionaire investor and Berkshire Hathaway chairman and CEO, Warren Buffett, this morning. Warren, it is-- super Tuesday eve today. And-- the election has been interesting to say the least.

07:17:41:00 (OVERTALK)

WARREN BUFFETT:

07:17:41:00 That's right.

BECKY QUICK:

07:17:42:00 What do you think of--

07:17:44:00 (OVERTALK)

WARREN BUFFETT:

07:17:42:00 I'm sorry. (LAUGHTER)

BECKY QUICK:

07:17:45:00 What do you think? Are-- have you been surprised by the direction things have gone?

WARREN BUFFETT:

07:17:49:00 I've been surprised by everything. Sure, I-- I-- I've been almost fascinated. You know, it-- it-- I've watched virtually all of the debates and town halls. And this has been-- I-- I've always been a political junky to some extent. You know, my dad was in Congress. And-- but this was-- this takes the cake. (LAUGH)

BECKY QUICK:

07:18:06:00 When we spoke with you back in September you were-- the first person I remember suggesting at the time that you could wind up with a brokered convention. Looks a little less likely now because Donald Trump is doing fairly well.

WARREN BUFFETT:

07:18:19:00 Yeah, it-- tomorrow will be big on that. I mean, it-- you know, tomorrow's proportional then they shift over to winner take all a little later. And-- and it's the proportional-- it's-- if the tally at the end of tomorrow is such that-- that Trump has 40%-- of the delegates (UNINTEL) and they've been-- the others have been assigned proportionally, you know, it could go to a convention. We'll find out.

BECKY QUICK:

07:18:45:00 In terms of Bernie Sanders-- last time we spoke with you you said that you admired Bernie Sanders. Since then Charlie Munger's spoken up. He says-- as an intellectual he's a disgrace. He also called him a little nuts. What do you see in Bernie Sanders campaign and what would you think of him as president?

WARREN BUFFETT:

07:19:02:00 Well, what I like about Bernie Sanders is he will say exactly what he believes. I mean, he is not tailoring his message week by week. The-- it-- you'll find with some of the candidates that they-- they shifted around or they don't answer the questions. But with-- with Bernie you know exactly what he thinks. And I-- in certain areas I agree with him. And in certain areas I would agree with Charlie. (LAUGHTER)

BECKY QUICK:

07:19:25:00 What-- what areas are you talking about? I mean, if--

WARREN BUFFETT:

07:19:28:00 Thing-- he's-- Bernie's bothered by certain things I'm bothered by and I would hope other people are. I mean, things like the influence of money in politics. I mean, Bernie-- Bernie would put-- certainly put citizens united close to the top of the list he would like change.

07:19:43:00 And he-- he's bothered-- he's bothered by-- the fact that in a country with 66,000 of GDP per-- per capita that so many people are poor. And m-- many of whom are willing and able to work but-- but they're still not getting by that well in this country. And he would like to do something about that. But it's what he would like to do about it (LAUGH) that I think Charlie's probably closer to that.

BECKY QUICK:

07:20:05:00 Charlie's closer in saying it's a little nuts, right?

WARREN BUFFETT:

07:20:06:00 Well-- well, I wouldn't-- yeah, I-- if I was to use that term myself. (LAUGH) But I would-- I would say that-- that Bernie has his tendency to-- to demonize institutions and-- and-- and-- he-- he thinks the solution would be simpler and he would-- he would turn the system I think somewhat upside down.

07:20:26:00 And there's parts of it that I might agree with him on. I think in terms of campaign finance I think it should be turned upside down. But I don't think-- I think we have a marvelous system-- in terms of delivering more and

more of what people want. I mean, we have a golden goose that's laid progressively more golden eggs ever since the country was started. And-- and both remarkable-- achievement in-- in the history of the world has happened in this country. So I-- I do not believe in throwing out the ba-- the baby with the bath water.

BECKY QUICK:

07:20:57:00 In your letter this year you really took aim at some of the politicians who have been going around saying that things aren't-- aren't going well in this country. You-- you said that-- that-- that things are strong here. Is that-- a shot at thinking we don't need to make America great again?

WARREN BUFFETT:

07:21:11:00 Well, America-- America's never been greater. I-- I mean, you can look at, you know, where we stand. I mean, it-- it-- it will be greater in the future. But America's never been greater. I mean, this-- this is the best time to be alive in the history of the world.

07:21:27:00 I mean, in terms of medicine, transportation, entertainment, you-- you name it. Or just in terms of aggregate wealth. Now the distribution has gotten more and more skewed in recent years and it should be skewed to quite a degree. But-- but I would say the skewing has been accepted.

07:21:42:00 But-- but as I mention in the letter, I live in a middle-- upper-middle class neighborhood. I mean-- the-- the median income might be \$100,000 a year or something like that. And every person in that neighborhood lives better than John B. Rockefeller Senior lived at the time I was born. In one man's lifetime, an upper-middle class neighborhood has evolved to a-- a way of life that's better than the richest man then in what was the best country in the world-- in 1930 was able to achieve.

07:22:14:00 He had power and prestige and-- and all of that. But in terms of medicine, entertainment, transportation, you name it, my neighbors are better off than he was. So it-- this country works. And it's working now. But it leaves-- it's leaving a lotta people behind that are very good citizens. And we can do more for them. But we don't wanna do it in terms of screwing up the golden goose.

BECKY QUICK:

07:22:38:00 What do you think of Donald Trump and what do you think of Chris Christie's-- support of him?

WARREN BUFFETT:

07:22:44:00 (LAUGH) Well-- my friend, Charlie, says never underestimate the man who overestimates himself. (LAUGH) And that's-- seems to apply to politics as well as in Wall Street and some other places. I-- I've been amazed at what's happened but-- and-- in-- in the Republican party. I wasn't amazed at all-- I w-- Christie was very predictable. I mean, I-- I-- that was-- that did not surprise me at all. But Trump's popularity has surprised me. But it's-- it's among Republicans and-- and-- I-- I happen to be a fan of Hillary's. And I think that she will be the winner in the fall.

BECKY QUICK:

07:23:21:00 Okay. Warren, they are wrapping us right now. But obviously we still have a lot of time to get through many more questions and maybe touch back on some of those as well. In the meantime though, Andrew, we'll send it back to you.

ANDREW ROSS SORKIN:

07:23:31:00 Thank you, Becky. And we do have a lot more to talk about-- to Warren about. But in the meantime, a unicorn warning from Bill Gates. That story after the break plus much more from Warren Buffett. Here are the futures right now, we were looking at red arrows and-- (MUSIC) (UNINTEL) that are down. We'll talk (UNINTEL), *Squawk* returns in just a moment.

07:23:53:00 (COMMERCIAL NOT TRANSCRIBED)

ANDREW ROSS SORKIN:

07:26:36:00 Welcome back to *Squawk Box* right here on CNBC. We will have more from billionaire investor, Warren Buffett, in just a couple of minutes. But first let's get you caught up on some of the headlines that have crossed this morning. The first, a unicorn warning.

07:26:46:00 Bill Gates issuing a warning to Silicon Valley investors. He told the FT that over the next two years he predicts the valuations of \$1 billion unicorns will fall as recent overenthusiasm cools off. He had added that the strategy of throwing money at any tech company will no longer guarantee returns. Comin' up-- we're gonna head back to Omaha. (MUSIC) Becky is standing by with billionaire investor Warren Buffett. We're gonna talk American Express, Coke and Dow Chemical, just a few of his top holdings. *Squawk* returns with Warren in just a moment.

07:27:19:00 (COMMERCIAL NOT TRANSCRIBED)

JOE KERNEN:

07:30:25:00 Hey, we were down 90 then for a while we were down-- we were about 30 (UNINTEL) somewhere in the middle there, 43, 41 right now. Oil-- has rebounded a little bit from where it was. It's-- it's now actually positive. It was never down a lot today but it-- as you can see WQI is now 32.88.

07:30:43:00 The European markets were quite weak-- early on. And they have definitely improved. Germany continues to be down-- at the service point. But France is-- basically just down less than a 1/10 of a percent and the (UNINTEL) is down less than 1/3 of a percent.

ANDREW ROSS SORKIN:

07:31:01:00 Okay, among the stories that are front and center after this hour, Starbucks set to open its first store in Italy next year. CEO Howard Schultz announced that coffee chain will expand first to Milan and then to other Italian cities in 2017. Schultz acknowledged that it was high standards for coffee saying--

07:31:15:00 (OVERTALK)

ANDREW ROSS SORKIN:

07:31:17:00 --company will enter the country with humility and respect.

JOE KERNEN:

07:31:21:00 That's a good idea--

07:31:20:00 (OVERTALK)

ANDREW ROSS SORKIN:

07:31:22:00 We will see whether the Italians take to Starbucks the way the rest of the world has.

JOE KERNEN:

07:31:25:00 I think it was a *Sopranos*' episode where Paulie is really mad when they were in a place gettin' some-- some espresso or some-- cappuccino or something and what they're charging for it and how this was a uniquely Italian thing and what-- I mean, he got real-- I just saw it recently here 'cause I was watching it again. But-- you should enter-- I would say that's-- that's good advice. Enter Italy s-- with humility--

07:31:52:00 (OVERTALK)

JOE KERNEN:

07:31:53:00 --and respect if you're gonna be assured on how to-- you know, how to brew coffee. (UNINTEL).

ANDREW ROSS SORKIN:

07:31:59:00 Talking about humility-- let's see-- how-- customers-- react to this Disney hoping to use ticket prices now to ease traffic problems in its parks. Call it surge pricing. The company has rolled out a surge pricing offer for single-day tickets in both its California and Orlando parks. Here's how it's gonna work. Prices will now be split into three levels. It's called value, regular and peak based on projected traffic.

07:32:23:00 So depending if you go during a holiday season, if you go during the summer when school's off. All of these things will be considered peak. Then there's some regular. Again, only affecting people who America buying one-day tickets, not the-- annual pass-- or longer-- sets of-- sets of tickets. And-- we also have your Oscar recap this morning. The biggest award show-- of the night-- Best Picture went to *Spotlight*, the film about the Boston Globes investigation into the Catholic priest abuse scandal also won Best Original Screenplay. Joe's been talking a lot about how he enjoyed that picture.

07:32:53:00 And then-- in the Best Actor category Leonardo DiCaprio honored for his performance in *The Revenant*. It was DiCaprio's first Academy Award win after six nominations. In the meantime, let's get back to Omaha. Becky Quick who is joined by Warren Buffett. I wonder who w-- was there-- was Warren watching the Oscars? And did he root for a particular picture this year?

BECKY QUICK:

07:33:16:00 Warren?

WARREN BUFFETT:

07:33:16:00 Well, we have an ABC station in Miami that we own, WPLG. So-- I was rooting for a big audience. (LAUGHTER) I did not watch the Oscars though.

07:33:26:00 (OVERTALK)

BECKY QUICK:

07:33:27:00 Warren, let's talk--

JOE KERNEN:

07:33:27:00 Oh sorry.

07:33:28:00 (OVERTALK)

JOE KERNEN:

07:33:29:00 I just-- one of the guys who won Best Screenplay said-- "Go candidates (?). I'm not going to accept any money from weirdo billionaires." And-- I was wondering have-- have you-- did you give Hill-- did you give Hillary any money this-- this-- this time around? I--

WARREN BUFFETT:

07:33:45:00 Yeah, but-- I don't-- (LAUGHTER) you know, if you (UNINTEL) logic you can't do the reverse of that. You can't say because I gave money I'm a weirdo billionaire.

JOE KERNEN:

07:33:55:00 I know.

07:33:54:00 (OVERTALK)

WARREN BUFFETT:

07:33:54:00 There's other evidence that I am though. (LAUGH)

JOE KERNEN:

07:33:56:00 And-- and so-- so War-- so Warren, as a *Hollywood Reporter*-- wrote the story. And, you know, I knew you were on today. And-- and I didn't think of you 'cause I don't think you're a weirdo necessarily. But-- so they picked out three weirdo-- (LAUGHTER) they picked out three weirdo billionaires. Here-- here they were, Koch brothers-- Ken (UNINTEL) and-- who-- who was the last one? There were-- there was three-- oh Sheldon Adelson.

07:34:22:00 (OVERTALK)

BECKY QUICK:

07:34:22:00 And a weirdo?

JOE KERNEN:

07:34:24:00 They-- they picked out-- they picked out three Republicans. Obviously. They weren't talking about Warren or Tom Steyer or George Soros. You know, the *Hollywood Reporter* easily came up with three weirdos. And of course by definition they were on the right.

WARREN BUFFETT:

07:34:40:00 Ken-- there's no way Ken (UNINTEL) is a weirdo. (LAUGHTER) I didn't get your third one, but.

JOE KERNEN:

07:34:46:00 I-- I agree. I agree but just--

07:34:46:00 (OVERTALK)

JOE KERNEN:

07:34:50:00 --your ears were burning when I read that. I-- I-- that was also what I was getting at.

WARREN BUFFETT:

07:34:53:00 Ken-- Ken I've known as a terrific guy. I know him personally.

BECKY QUICK:

07:34:57:00 Yeah. We love him too.

JOE KERNEN:

07:34:58:00 He's on Wednesday. Yeah.

BECKY QUICK:

07:34:59:00 Warren, let's talk a little bit-- oh he's good. I haven't seen him in a while. Warren, let's talk a little bit more about the letter and some of the things that you wrote about. You-- you took a lot of time and space in the letter-- to tackle the differences between Berkshire Hathaway's operating style and 3G's operating style.

07:35:16:00 George E. Powell of (UNINTEL) obviously someone you've done some work with. You guys have partnered on several different deals. And the point of asset-- as far as Berkshire's concerned you buy good businesses with good managers. You already like the way they're running. 3G does it differently. They buy businesses where they can go in, make cuts-- and-- and try and improve the way a business is running.

07:35:35:00 You also say that you'd never do a hostile deal. So it's fun to lay out those differences. What do you think about that different-- that different style though which has been criticized pretty heavily in the past. The private equity version of coming in and laying off a lotta people.

WARREN BUFFETT:

07:35:49:00 I-- I-- I think every business should be run as efficiently as possible. And some are and some aren't. We try to buy the ones that are. We think-- we don't think there's a thing that needs doing at Precision-- Castparts -- that would make it more efficient. They've run it efficiently from the start.

07:36:06:00 Actually we've had Berkshire headquarters, for example, are efficient. We've got 25 people there and it's the same 25 as a year ago. So I-- I believe enormously in efficiency. I mean, it's the only way living improves is to get more output per unit of input.

07:36:22:00 I mean-- if-- if we did everything the same as we did in 1790 we'd be living like we did in 1790. So the whole goal, I mean, that's what-- you've got-- obviously manufacturing is easy to measure how many cars you get per man hour and how m-- it's much more difficult, you know, if you're looking at medicine or teaching or something of the sort.

07:36:42:00 But the goal of the society should be to get more output per unit of input. And some companies are extremely efficient now. And we try to buy those. And-- because we don't think we can bring it to them. And George E. Powell looks-- and his associates-- they look for companies where there's a lot to be done to make them more efficient.

07:37:00:00 And then once they are you have a more efficient economy. And you are trying to free up people-- and I use the example in the annual report of farm labor. I mean, we have 40% of the people working on the farm in 1900. And if we had 40% now about 150 million plus work force you'd have 60 million. You know, I mean, and those people would not be producing, you know, at Apple and places like that, things we want. So efficiency should be the goal whether it's government, whether it's business, you name it. And-- and they're very good at getting inefficient operations working much more efficiently. I wouldn't be good at it. But-- but I'm good at spotting it where people are doing it already. And I'm reasonably good at talking those people into joining Berkshire.

BECKY QUICK:

07:37:48:00 And-- and-- I-- I guess that's my point, when 3G and other private equity companies have gone in and laid off people they've generated all kinds of negative headlines. Your point is that this is a necessary task. This is something that has to be done.

WARREN BUFFETT:

07:37:59:00 Sure. It-- it has to be done. I mean, and-- you-- well, you're seeing it in the newspaper industry. The people-- the people are writing about it and had to get more efficient as they-- as-- as the revenues have declined. And-- and-- probably some of them were inefficient in certain ways before just because they were so rich at that time.

07:38:17:00 A rich economy can afford a lot of efficiency. But that doesn't mean it should happen. Because in the end we've got 320 million people in this country. And the more they are properly placed in the proper jobs to fit their talents and if you motivate them to do the best job they can and all of that the more output you get per capita the better the country's going to be.

BECKY QUICK:

07:38:38:00 Andrew, you have a question too?

ANDREW ROSS SORKIN:

07:38:42:00 I do. Warren, a number of activists actually have emailed me over the weekend because one of the-- the interesting notes at the end of your letter this year were you seemed a-- after I think years of being relatively critical-- of activists you said-- at one point, "To be sure, certain hostile offers are justified. Some CEOs forget that they need shareholders for whom they are working while other managers are woefully inept." So when-- when is it okay and when is it not? And has your view on activism changed?

WARREN BUFFETT:

07:39:10:00 No, it hasn't changed at all. The first time I'd written about it on this-- in this specific arena. But I-- actually I've talked about it annual meetings in the past. I mean, we do not-- if you take the Fortune 500 we do not have the 500 best quarterbacks (LAUGH) at each one of those scenes.

07:39:24:00 And in the end part of the success of our economy will depend on having the right managers and having the right businesses. And-- and any time a business is run by someone that's a six when you can have-- a nine in there, not only the business suffers, the whole economy suffers. I mean, it-- it-- you need able people and-- to the extent you can-- the very best people-- running-- running businesses. I mean, they deploy these 150 million workers we have and determine how efficient they are. So I-- I have been-- I've been a director of companies where we've had the wrong person running them.

07:40:04:00 We've owned companies where we've had the wrong person running 'em. And I do not believe that-- in dilly-dallying around about making changes like that. Sometimes I've been too slow myself and I've seen the problems in-- in widely-held corporations. I've seen the problems of the-- of getting rid of somebody who's a perfectly nice person, probably helped select you to become a director.

07:40:27:00 Treats his family well, treats his directors well. But he's just not doing as good a job as someone else can do. And-- and that hurts not only that company it-- it actually hurts all of America. So I-- I've-- I've always been-- I've always felt that way. It doesn't mean I wanna do that job myself. I mean, that-- that-- you know, at 85 I'm not-- (LAUGH) I'm not-- around to be-- it's much easier just to buy companies that are already well-run. I mean, it-- that makes it-- my job so much easier. But the problem exists out there that certain companies are not well-run. And sometimes the directors don't do anything about it. And then you need somebody to stir things up.

BECKY QUICK:

07:41:04:00 Warren, let's talk about a company that has been stirred up recently and that's Down Chemical. You own \$3 billion of preferred shares that pay 8.5% annually. There is the option of the company to go ahead and convert those back to common shares if the stock price stayed above \$53 and change for 20 days in any--

07:41:23:00 (OVERTALK)

BECKY QUICK:

07:41:24:00 --thirty-day period.

WARREN BUFFETT:

07:41:26:00 Yeah, you and I are probably the only ones that know besides Dow Chemical. (LAUGHTER)

BECKY QUICK:

07:41:29:00 What-- they-- the company-- has been trading higher because of the merger that's been pushed--

07:41:36:00 (OVERTALK)

WARREN BUFFETT:

07:41:35:00 It's traded higher for a couple of days. Actually it-- it's traded lower. (LAUGH)

BECKY QUICK:

07:41:40:00 If the company were to hit that threshold and decide to go ahead and-- convert the shares to common which they probably would just because of the 8.5% that they're paying on it, would you keep the stock?

WARREN BUFFETT:

07:41:51:00 Well, the company would like the stock to sell at a level that would allow them to force converging, that's perfectly sensible. I mean, I-- I would want the same thing if I were in their position. And if it-- we-- we are unlikely to be an owner of-- of the common.

BECKY QUICK:

07:42:09:00 Because?

WARREN BUFFETT:

07:42:09:00 Because we bought a preferred that we liked. And-- and we did not buy the common. And we have not bought the common ever since. So there's other stocks that we would like better as a common stock. So we-- we like the preferred-- 8.5% preferred we like. Someday we'll get to a level where-- where they can force conversion and-- and-- and they undoubtedly will. And then the question is is would I rather own Dow Chemical or maybe DuPont Dow Chemical at that time. Would I rather own that than any other stock? And-- if that were the case I'd a been buying it already.

BECKY QUICK:

07:42:44:00 If that's the case is it because of the changes that are coming? Andrew Liveris isn't gonna be with the company anymore. If he was there, would you keep it?

WARREN BUFFETT:

07:42:52:00 It's because it's a business that I don't really have a fix on. We-- we've never owned much in the way of chemical businesses. If-- if you look at the history of Berkshire I can't even hardly recall-- I don't think I can recall a chemical stock. I mean, I don't think I have a fix on that business.

BECKY QUICK:

07:43:06:00 I think of--

07:43:07:00 (OVERTALK)

WARREN BUFFETT:

07:43:10:00 --yeah. That-- that's a specialized chemical. But if you look at-- you look at-- all the big chemical companies we really haven't owned them.

BECKY QUICK:

07:43:22:00 In-- in terms of what happened there, is that a situation where you think the activists were warranted in getting involved?

WARREN BUFFETT:

07:43:28:00 Well, I don't know about whether they're warranted there. But-- but there's certainly situations it's very tough to tell. I mean, in-- in DuPont, you know, we'll find out whether people can run it better than it was being run before. The record is very mixed on that. Sometimes-- sometimes-- sometimes the-- the activists come or bring in somebody that-- that does a much improved job. And sometimes they screw it up.

BECKY QUICK:

07:43:57:00 Okay. Warren, we'll continue this conversation. But in the meantime, Joe, we'll send it back over to your direction.

JOE KERNEN:

07:44:02:00 Okay, thanks-- Becky. Coming up, Warren is gonna tell you about some of his top holdings including American Express and Coca-Cola. *Squawk Box* will be right back. (MUSIC)

07:44:11:00 (COMMERCIAL NOT TRANSCRIBED)

WARREN BUFFETT:

07:46:55:00 Frito Lay is a-- a-- a fabulous business. I'd love to own it. I-- I-- I eat Fritos, I eat Cheetos, I eat the potato chips. I even eat Munchos which are kinda hard to find. But I always drink Coca-Cola with them. (LAUGHTER)

BECKY QUICK:

07:47:13:00 That was Warren Buffett back on March 1st of 2010 talking salty sna-- snacks and soda. And Warren, that brings us back to some of your big investments including Coca-Cola. Charlie Munger made some comments recently where he said that Coca-Cola's still a strong company but not like it used to be. What-- what do you think about Coca-Cola?

WARREN BUFFETT:

07:47:29:00 Well, Coca-Cola continues to sell more-- drinks-- wider portfolio than they used to have many years ago-- more every year than the year before. But the growth rate-- in carbonated soft drinks 20 years ago was a lot greater than-- than it is today.

07:47:51:00 And it's still-- it-- it's still s-- very strong. I mean, I think (NOISE) they sell, like, 1.9 billion eight-ounce servings of some drink every day. And-- a lot of that's Coca-Cola. So it-- it's a very good business. But the growth rate has slowed down considerably from it was, say, 20 years ago.

BECKY QUICK:

07:48:09:00 We-- we know that-- the company just recently announced that it's stepping up the restructuring of its North American operations. It's trying to-- push ahead-- the move to get out of Coca-Cola battlers.

WARREN BUFFETT:

07:48:22:00 Yeah.

BECKY QUICK:

07:48:22:00 Is that the right move?

WARREN BUFFETT:

07:48:23:00 Well, it-- it's hard to tell. I mean, a-- they-- they bought-- off the bottling operations-- I don't know-- five or six years ago with the idea of refranchising 'em later on. So, I mean, this is part of a plan.

07:48:39:00 They just-- in 1899 for \$1 they made a deal with three guys from Chattanooga. It was the dumbest deal ever made. They-- they gave in perpetuity the rights in-- in almost the entire United States for these guys for the bottling operation. And that led to all kinds of things over time. And those fellas made some arrangements and all that sorta thing. Working their way out of that, it started 40 or 50 years ago. And I've (UNINTEL) a big part of the job. And they-- but these are the beloved and tre-- they cajoled and pleaded (LAUGHTER) and all these things to try and get this thing into a more logical arrangement. And they've been working on that for a long time.

07:49:18:00 And this is part of a very long-term plan. You have the most logical distribution system that fits today's retailing. I mean, there weren't Walmarts and those around 100 years ago. So you had local accounts entirely then. Now you have big national accounts. So it's a different world. But it's been expensive-- it's been very expensive to configure the distribution arrangement.

BECKY QUICK:

07:49:41:00 Well, with the purchase of CCE, Coca-Cola Enterprises, was that the right move back in 2010?

WARREN BUFFETT:

07:49:47:00 They probably felt it was the only move to-- but they created CCE of course 20 years earlier. I mean, it-- it's been a tough problem to align the interests of the bottlers and the conc-- they call it concentration-- manufacturing part of it. And-- and it's-- it's different by different countries.

07:50:04:00 It's-- it's not an easy puzzle. But they have decided that to have the United States in particular more logically configured-- reinvigorated in terms of the bottling partners they might have and so on. They've got a terrific bottler for example that they've added in Chicago. I know the people. So this-- the score card isn't in on it. They paid a lotta money and they're not gonna get back that much money it doesn't look to me like in terms of when they refranchise it. But that isn't really the key. The real key is-- is-- is how vigorous the system is and once it's been put in place. And they've accelerated the time table for getting it refranchised.

BECKY QUICK:

07:50:43:00 They-- company names and the president and chief operating officer, James Quincey, back in August. Do you know him?

WARREN BUFFETT:

07:50:48:00 I-- I met him once and I've got-- a dinner coming up with him here in-- pretty soon. Everything I know about him is good.

BECKY QUICK:

07:50:57:00 Okay. There's a question from a viewer that comes in asking-- this is from (UNINTEL)-- will 3G buy Coca-Cola in the next few years?

WARREN BUFFETT:

07:51:06:00 I don't think so. (LAUGHTER) No that's-- Coca Cola's not for sale. (LAUGHTER)

BECKY QUICK:

07:51:10:00 And the--

WARREN BUFFETT:

07:51:11:00 I will say this, we own 9% of it. So we might have a little bit-- (LAUGHTER)

07:51:14:00 (OVERTALK)

WARREN BUFFETT:

07:51:15:00 --yeah. Yeah.

BECKY QUICK:

07:51:16:00 Okay, let's-- let's turn our attention (UNINTEL) a little bit about American Express. This was another question from a viewer, Dave Carson, who writes in, "How do you rationalize Berkshire's continued investment in American Express given its troubles?"

WARREN BUFFETT:

07:51:28:00 Well, American Express started I think in 1851. And they had an express business. You-- you transported goods from the west coast-- east coast to the west case. I think they even chained the pony express rider to his trunk that he was carrying so that if the Indians came couldn't (UNINTEL) and leave the trunk.

07:51:46:00 And then along came the railroad. And now all of a sudden you could stick those trunks on-- on-- on a railroad. And American Express adapted to money orders. And then the credit card came along in the 1950s and people thought money orders were gonna disappear. And they adapted to credit cards.

07:52:02:00 Diner's club looked like they were gonna wipe 'em off the face of the earth for a short period of time. So it's been a business that's had to adapt. But it's-- it's been a very fundamental business with a terrific reputation. During-- when Roosevelt closed the banks in 1933 travelers checks were allowed to be continued to be used. So they substituted for banks even for a week or so.

07:52:26:00 So it-- and Ken Chenault has been terrific about adapting in a world where you need to adapt very quickly. But you've got-- you've got cardholders spending \$16,000 or \$17,000 per person against, you know, four s-- thousand or so on these. And it's a very-- it's a very, very strong brand. But you are going to have all kinds of people coming at you in payments. That won't stop. I mean, it'll be this thing today and another thing tomorrow.

07:52:52:00 And so you've got PayPal. You've got the whole works. I think American Express will do fine over time. The Costco-- break up the Costco arrangement was a big deal. But the proprietary cards stay as strong as ever and keep growing. And I-- I-- I like it fine. But there's no question it'll have an abundance of competition.

BECKY QUICK:

07:53:12:00 The company's going through a restructuring as well-- American Express. And-- people have been told some-- some warning that you could have some up and down-- quarters as you go through this, as they spend more on marketing to make you bring more people in-- more members into the card. You're prepared to ride that out?

WARREN BUFFETT:

07:53:28:00 Well, sure. I mean, I-- I-- I rode out the (LAUGHTER) (UNINTEL) oil in 1960s. So American Express-- they bought (UNINTEL) fund insurance, they tried to build a brokers thing around (UNINTEL), I mean, they'll make-- they'll make mistakes. They owned IDS and they s-- they spun it off. It went (UNINTEL).

07:53:46:00 It's-- it's what they have the sense to evolve and they keep evolving toward their strengths. And-- you know, I-- I've got a card in my pocket that I got in 1964. (LAUGH) And-- and it served my purposes very well. But it doesn't serve everybody's purposes. And they will keep adapting to that. They've come up with lots of new data. So it's competitive. But I like the business.

BECKY QUICK:

07:54:10:00 Of the big four investments we have-- talked about already American Express, Coca-Cola, IBM. We have not touched on Wells Fargo.

07:54:18:00 (OVERTALK)

WARREN BUFFETT:

07:54:18:00 That's the biggest one too.

BECKY QUICK:

07:54:19:00 The biggest one and it's the best-performing stock if you're looking at the four over the last year or so. So-- talk a little bit about Wells Fargo.

07:54:27:00 (OVERTALK)

WARREN BUFFETT:

07:54:28:00 Terrific operation at the onset. And done a great job. I-- I keep trying to-- he's talking about retiring at 65. And I-- I'm gonna go out and have a hunger strike in front of the director if they (UNINTEL). He's done a fabulous job. And Wells-- Wells-- it's a very big, I mean, it's a company that makes \$20 billion a year plus after tax.

07:54:51:00 And then-- it's in I don't know how many households. But it's-- it's-- it's a very well-run bank. It's-- it's-- when the-- when the c-- crisis hit, you know, it took over what I think was then the fourth largest bank, Wachovia. The-- government didn't have to come up with a penny. You know, I mean, stockholders got some more stock. But with Wells was there to take over Wachovia at a time when the world was falling apart. And it didn't have to go the FDIC, it didn't have to go to the Federal Government. So it-- it-- it's done a terrific job.

BECKY QUICK:

07:55:22:00 You also mention Bank of America in the annual letter. Not one of your big four holdings although you mention that it--

07:55:27:00 (OVERTALK)

BECKY QUICK:

07:55:28:00 --it was converted it would be your fourth largest (UNINTEL) investment.

WARREN BUFFETT:

07:55:33:00 Yeah. Now Bank of America, I mean, it-- Brian Moynihan has done a great job. I mean, he-- he inherited a bad hand. I mean, they had-- when you look at Countrywide and-- and when Merrill Lynch was acquired on that Sunday rather around \$30 a share if they waited (UNINTEL) probably been 30 cents a share.

07:55:48:00 You know, so-- Brian really took on a tough company. And all these mortgage problems inherited from the past. And you have the government (UNINTEL) and you had the (UNINTEL) populous mass. (LAUGH) And he-- he, I mean, he just took it one thing at a time.

07:56:03:00 And he-- he's made improvements-- dramatic improvements. And I think it's very, very likely we've got these (UNINTEL) and few years and I think very, very likely we-- we ex-- we-- exercise those and-- and remain a very large shareholder. The-- I think we'd own about 7% of the company or something like that. And-- and-- I think that'll happen.

BECKY QUICK:

07:56:27:00 Okay. We're gonna continue our conversation with Warren Buffett. When we come back we'll get his advice for Tim Kirk. Plus Buffett is a big rail fan as the owner of Burlington Northern, what does Buffett think of the oil glut. The rail tanker industry and much more. Stick around, this special edition of *Squawk Box* will be right back. (MUSIC)

07:56:45:00 (COMMERCIAL NOT TRANSCRIBED)

CNBC NBC UNIVERSAL

"WARREN BUFFETT"

INTERVIEW WITH WARREN BUFFETT

CORRESPONDENTS: BECKY QUICK, JOE KERNEN AND

ANDREW ROSS SORKIN

PRODUCER: LACY O'TOOLE

MEDIA ID: HOUR 3

* * *TRANSCRIBER'S NOTE: JOE KERNEN AND ANDREW ROSS SORKIN SOUND SIMILAR
AT TIMES.* * *

ANNOUNCER:

07:59:33:00 *Squawk Box* is on Buffett watch. Warren's annual letter to shareholders is out. And we have a special one on one interview with the oracle of Omaha. His thoughts on the global economy.

WARREN BUFFETT:

07:59:46:00 We would be better off if we had a big mattress here (LAUGH) so we could stick all the stuff in, yes. (UNINTEL PHRASE) mattress. You know, that's what we would do.

ANNOUNCER:

07:59:54:00 Oil (?).

WARREN BUFFETT:

07:59:55:00 Some very tough things happened-- to the economy fairly quickly. The benefits just keep kind of flowing too slowly.

ANNOUNCER:

08:00:03:00 And investing in turbulent markets.

WARREN BUFFETT:

08:00:06:00 American business will do fine over time. And if you own a piece of it and if you don't beat yourself-- the only-- the only person who-- who can cause you to get a bad result in stocks is yourself.

ANNOUNCER:

08:00:14:00 Warren Buffett answers the questions that matter most to your money, as the final hour of *Squawk Box* begins right now. (MUSIC)

JOE KERNEN:

08:00:34:00 Welcome back to *Squawk Box* here on CNBC, first in business worldwide. I'm Joe Kernen along with Andrew Ross Sorkin. Becky Quick, as you know, is live in Omaha with Berkshire Hathaway CEO, Warren Buffett. We'll get back to them in just a minute. First though, let's get you up to speed on some of the other top stories of the day. We're down about 45 points in the U.S. market after two very good weeks. We are a little bit lower, indicated this morning down 42, 43 on the-- on the DOW, down s-- six or so, just under six on the S&P. And 20 or so on the-- on NASDAQ. Ready to-- ready to flip the board there. Then what's happening in Europe right now.

08:01:09:00 Germany, the weakest over there, as you hear more and more-- pushback against-- Angela Merkel and-- and what's happening over there. Immigration-- a global issue now that-- that everyone's talking about. Especially with what's happening in Syria. I don't know-- d-- what's the latest on the ceasefire? Still en-- enforced, Andrew, but no one has--

ANDREW ROSS SORKIN:

08:01:30:00 I think so, but nobody's--

BECKY QUICK:

08:01:32:00 We need to check on an hourly basis, I guess. But we'll keep our fingers crossed.

ANDREW ROSS SORKIN:

08:01:36:00 In the meantime, let's-- tell you what else is goin' on among our other top stories. China's Central Bank cutting the reserve requirement ratio. Now, the amount of cash-- 'cause that's the amount of cash that the country's banks have to hold. This is an intent to calm investor jitters over the world's second largest economy.

08:01:50:00 And then, on the economic agenda back here in the United States this week, we got a lot to talk about. Jobs, jobs and jobs. On Wednesday, we're gonna get the (UNINTEL) ABP report. On Thursday, we get the closely

watched weekly job (UNINTEL). And then on Friday the big one, the all-important jobs report itself. And we're watching gold this morning because the previous metal is on track now for its best month in four years as investors seek a safe haven. They're looking at gold now at \$1,230. In the meantime, we gotta get back to Becky Quick in Omaha with our special guest for the morning, Warren Buffett, who traditionally doesn't like gold. Becky.

BECKY QUICK:

08:02:27:00 (LAUGH) Well, would you like to expound on that. Your c--

WARREN BUFFETT:

08:02:29:00 Well--

BECKY QUICK:

08:02:29:00 --your cost on gold--

WARREN BUFFETT:

08:02:30:00 --last time-- last time you asked me about gold was about three or four years ago, it was \$1,800 or something. And I said I didn't think much of it. And so far, I've been right. (LAUGH)

BECKY QUICK:

08:02:38:00 Well, we have-- a lotta questions that have come in from people wanting to know your thoughts on Apple and the Department of Justice and this battle that's played out. I'll-- I'll ask one of these questions. This comes from Nick Peluski (PH). He says, "In regard to the F.B.I. versus Apple, what would you do in a similar situation, knowing that the value of your company could be affected?"

WARREN BUFFETT:

08:02:59:00 Well-- well, I'll salvage my credentials, (LAUGH) my phone. Yeah. Yeah. I-- I don't know anything about tech, obviously. But my feeling just generally, with-- and I don't know the-- I don't know the specifics of the pleading to the judges, the side here or anything of the sort. I do think that we live in a very, very, very dangerous world.

08:03:22:00 And-- and there, I'm thinking about the mass attacks, like the things that we could have in cyber or-- nuclear chemical, biological. Certainly, if you were in the early days of September, 2001 and you were receiving credible information that something major was happening and you had reason to believe that it might be-- connected with certain people, you know, I think that in that case, security trump-- trumps privacy.

08:03:52:00 On the other hand, I think that if you've got people that are just pushing around-- on smaller type things, they're-- and-- and low probabilities of-- of finding things or anything like that, I think privacy-- trumps security. But in the end, if there's an-- there's something major, something that the attorney general or the head of the F.B.I. was be willing to s-- sign and go to a judge on and say, "We need this information and we need it now--" I would be willing to trust that official to behave in a proper manner.

08:04:27:00 I wouldn't want that broadly distributed. I wouldn't want every magistrate to feel he had to respond to (UNINTEL PHRASE) some local cop or whatever it may be on one item of privacy or another. But I-- I do think that the world is very, very dangerous. And I think that anything that enables us to minimize the danger or something that's really threatening.

08:04:49:00 I mean-- take the anthrax of 2001. If-- if it were apparent that you could determine the-- the area from which that anthrax came, I would wanna know about-- about everybody that had access to it. And I'd wanna know it immediately because I wouldn't know when they were start putting it in something a whole lot more dangerous than (UNINTEL) National Enquirer or Tom Brokaw or Tom Daschle. (BACKGROUND VOICE)

BECKY QUICK:

08:05:14:00 On Apple's point, Tim Cook's side of things, he says that this is basically the government ordering them to write code. I-- I'm not a technologist out there. I don't understand that necessarily--

WARREN BUFFETT:

08:05:25:00 I don't-- no, I don't either. And I admire Tim Cook enormously. I-- I-- I respect him much as any CEO in the country. I would say this. If-- if we have probable cause and-- whether-- whether it be an attorney general or F.B.I., the president, talk to some-- there was a dirty bomb in New York or something of the sort and Apple could help us-- at Berkshire and hath-- and Hathaway, we've been asked to help 'em on-- on certain things.

08:05:53:00 If-- if-- if-- if they were asked to help, I would think they would wanna do it immediately. And certainly, I think Tim Cook probably would. I mean, I-- the-- the problem is, he doesn't wanna open it up to where, yeah, (UNINTEL PHRASE) and th-- your phone or my phone. And turn off a whole bunch of things that clearly-- are irrelevant to national security. But they help somebody in some other way. I mean, so-- you have to have some-- privacy has its limits. And-- and-- and-- and the national security has its limits in the other direction. You can't call everything national security.

BECKY QUICK:

08:06:29:00 Andrew, you have a question on this too?

ANDREW ROSS SORKIN:

08:06:31:00 Warren-- (UNINTEL PHRASE) Warren just peaked my interest 'cause you'd-- you had mentioned that the government has asked Berkshire-- prior for certain information. What kinda information was that?

WARREN BUFFETT:

08:06:42:00 Well, I would say this. I w-- I-- I-- I think almost every large company-- over a period of years has been asked to help in s-- some way in terms of law enforcement. And when they-- when they're asked, they are also-- that's preceded by an agreement not to talk about it. And I think that's quite proper. I mean, there are things-- you know, you could be privy, if-- certain companies could be privy to something that would be useful-- you know, if there were a dirty bomb in-- in New York or something that was scheduled to go off.

08:07:18:00 You might be very interested in building maintenance (LAUGH) (UNINTEL PHRASE) or something of the sort. So-- I-- I-- well, I know that-- that many large companies have been asked very-- it's not been willy-nilly. Nobody's-- nobody's doing it just to pry or anything like that. There's been a reason for it. And I think that almost any large company would cooperate.

08:07:39:00 And I think, frankly, Apple would cooperate if-- if it was a targeted sorta thing, that-- where they felt it was very important to national security. But I don't think they wanna give away, you know, th-- the-- the-- the-- there're a lot of I-- a lot-- millions of phones out there that people-- where people aren't just replying. And--

ANDREW ROSS SORKIN:

08:07:57:00 Warren, I think one of the-- the issues for Tim Cook in particular about the code is-- it would be the equivalent of the government asking you to manufacture a product, if you will-- that you currently don't manufacture, and a product that you don't want to manufacture. If the government came to you under those circumstances, how would you feel?

WARREN BUFFETT:

08:08:19:00 Well, I would say if it was important enough to national security, that we would try to cooperate. I-- and I think I-- and listen, I think-- I think 99% plus of the Fortune 500 would do the same. You'd have to be convinced this was terribly important and that you had some particular ability or expertise that really we could make a difference.

08:08:40:00 But-- but if somebody came to me and said, "You know, you've got some power plants and you've got a lotta plutonium there, (LAUGH) would you mind selling us some," you know, the fellow looked like he came from North Korea, I think I'm-- (LAUGH) I'd be quite cooperative with-- with government.

ANDREW ROSS SORKIN:

08:08:56:00 Right. And Warren, just-- for-- one final point on it 'cause I think this makes it slightly more complicated, and this is one of the reasons-- that Tim Cook feels the way he does, beyond genuinely feeling this way-- on the privacy count, which is the impact on his business. Which is to say that, unlike many other businesses, if the government came to you and-- again, came to you privately-- in this case, it's now very public.

08:09:16:00 Th-- the larger implication from a business standpoint is that if Apple were to give-- be forced to give up this information, that it might-- make his business in places like China and elsewhere much more complicated, either because he's gonna have to abide by their rules, or they're gonna tell him, "You know what? You can't do business here."

WARREN BUFFETT:

08:09:38:00 That's-- that's a complication. But I-- I would say that I-- I-- I don't know Tim real well. But everything I know about him is-- is he's-- as high a rated individual as you can imagine. But, you know, th-- the bank-- (LAUGH) they're-- th-- I-- I-- I used to take out-- my wife likes to use cash. I used to take out \$9,000 regularly. And-- the F.B.I. came to see me, you know?

08:10:01:00 And-- where did-- my bank gave 'em that information. I-- I'm not mad at my bank about that. I mean, that's-- that's-- w-- but they cooperate with the U.S. government and it probably has to do with money laundering and a whole bunch of things. And-- my-- I expect my bank to co-- cooperate with the U.S. government. I expect my-- you know, I-- I expect my telephone company-- to cooperate with the United States government.

08:10:24:00 I don't think they sh-- I think they should be reasonable in determining to what extent th-- where there's really a need to get that sorta thing. But-- but I-- we live in a dangerous world. And-- and if-- if in our railroad we found mysterious shipments of something (LAUGH) (UNINTEL), something, I would hope that we would-- we would-- make sure that the pe-- proper people in government knew about it.

MALE CORRESPONDENT:

08:10:54:00 (UNINTEL PHRASE) know what you're do--

BECKY QUICK:

08:10:54:00 And I think the situation has gotten so comp--

MALE CORRESPONDENT:

08:10:57:00 I-- I wanna know what he's doin'--

BECKY QUICK:

08:10:57:00 Oh go ahead, sorry--

MALE CORRESPONDENT:

08:10:58:00 --with the ni--

BECKY QUICK:

08:10:58:00 Warren.

MALE CORRESPONDENT:

08:10:58:00 What were you doin' with the \$9,000, Warren? And how many times (LAUGH) did you do that and what (LAUGH)-- wh-- what the heck-- (UNINTEL PHRASE)--

WARREN BUFFETT:

08:11:04:00 I get a lotta clients.

MALE CORRESPONDENT:

08:11:05:00 Huh?

WARREN BUFFETT:

08:11:07:00 Yeah, well-- well, I-- I get (UNINTEL PHRASE). That's what my wife gets to spend on it.

MALE CORRESPONDENT:

08:11:11:00 (LAUGH) Well-- th-- well-- yeah, okay--

WARREN BUFFETT:

08:11:13:00 It-- it's-- it's-- (UNINTEL PHRASE). (LAUGH) No, I'm just-- no, I did it fairly frequently. I-- I-- I read someplace that-- that, you know, that-- that it's-- there-- that \$10,000 was some threshold where they report it. I thought, "I d-- I-- why sh-- why should they report it?"

MALE CORRESPONDENT:

08:11:28:00 (LAUGH) I-- I can just--

08:11:28:00 (WARREN BUFFETT: UNINTEL)

MALE CORRESPONDENT:

08:11:29:00 --say--

WARREN BUFFETT:

08:11:29:00 --her to buy groceries. (LAUGH)

JOE KERNEN:

08:11:30:00 Me and Andrew here in-- v-- neither one of us (BACKGROUND VOICE) has ever taken \$9,000 out to just throw-- for walkin' around money, have we, Andrew? That-- that--

ANDREW ROSS SORKIN:

08:11:38:00 (UNINTEL PHRASE) cost, my friend.

08:11:38:00 (WARREN BUFFETT: UNINTEL)

MALE CORRESPONDENT:

08:11:39:00 I use my magic bus card (?)--

WARREN BUFFETT:

08:11:40:00 That's why you--

MALE CORRESPONDENT:

08:11:41:00 --that's Warren's-- (UNINTEL). (LAUGH)

WARREN BUFFETT:

08:11:44:00 That's why the F.B.I. got suspicious of me. I--

BECKY QUICK:

08:11:46:00 (LAUGH) You were just under the threshold every time?

WARREN BUFFETT:

08:11:48:00 Yeah. Well, yeah, you're not supposed to do that. I didn't know that, but I-- (LAUGH)

MALE CORRESPONDENT:

08:11:53:00 Spend-- spending it on cherry Coke, you know I mean? And just guzzlin' that. (LAUGH) Like, (UNINTEL PHRASE).

WARREN BUFFETT:

08:12:02:00 Well, those two guys were pretty serious when they came into the office. I wasn't there, but my assistant was there and-- (LAUGH) and, you know, I learned. (LAUGH)

MALE CORRESPONDENT:

08:12:11:00 We're-- we're-- we're-- w-- we're-- that goes back to the weirdo billionaire question again on that, 'cause I was wonderin' where that \$9,000 all was--

WARREN BUFFETT:

08:12:16:00 Yeah, where's it--

MALE CORRESPONDENT:

08:12:17:00 --goin'.

WARREN BUFFETT:

08:12:17:00 --goin'?

MALE CORRESPONDENT:

08:12:17:00 Yeah. Yeah. Do tell, Warren. (LAUGH)

WARREN BUFFETT:

08:12:21:00 Well, those-- we'll save that for the annual meeting. I gotta ask if (UNINTEL) was there.

08:12:25:00 (OFF-MIC CONVERSATION)

BECKY QUICK:

08:12:28:00 Andrew?

ANDREW ROSS SORKIN:

08:12:30:00 We-- and I-- I'm finished up on my Apple questions--

WARREN BUFFETT:

08:12:32:00 I'll tell you, I--

ANDREW ROSS SORKIN:

08:12:32:00 I think-- I'm fascinated by his answer. And I-- have you talked to Bill Gates about this at all, Warren?

WARREN BUFFETT:

08:12:39:00 Well, I-- I saw him on *Charlie Rose* the other night-- talking about that. I have not talked to Bill about it-- but. I mean, it's a very, very tough question because it is a question of degree. I mean, if I really wanna know-- if-- if we can crack the 19 guys and have-- find some conversations when they're planning on how to take over a bunch of airplanes, you know, I would like to be able to have access to that information and I wouldn't wanna have to go all the way up to the Supreme Court.

08:13:06:00 Like, you know, well-- well, with this playing out. And on the other hand, the idea of government just prying and-- and-- and-- you know, and using it-- well, we had that case with J. Edgar Hoover, you know? And so I-- it-- it-- it's-- it's (UNINTEL)-- it's easy to answer the extremes and it's hard to know where to-- where to cut it in the middle.

ANDREW ROSS SORKIN:

08:13:23:00 Okay.

WARREN BUFFETT:

08:13:23:00 I think-- I-- I di-- my guess is Tim Cook, I mean-- you know, he-- he cares about the same things, you know, every American cares about in terms of-- of safety of the country. And he also cares about not-- not letting people get into a product he's sold unless they've got a very, very good reason for it.

MALE CORRESPONDENT:

08:13:41:00 Okay. Warren Buffett-- we're gonna come back to you in just a couple of minutes. Stay tuned for more questions, some of which (MUSIC) have been submitted by you, the viewers. We're gonna get to those-- shortly. Right

now though, as we head to a break, take a look at the price of crude. We're talkin' about oil-- with Warren a little bit earlier. WTI Crude now at 3290. *Squawk* returns with Warren Buffett in just a moment.

08:14:01:00 (COMMERCIAL BREAK)

BECKY QUICK:

08:16:54:00 Welcome back to this special edition of *Squawk Box*. We are live in Omaha, Nebraska with Warren Buffett, the chairman and CEO of Berkshire Hathaway. And Warren, we've talked about a lot of issues this morning. But we haven't touched on some of the new investments that came in. And I'm thinking specifically of Kinder Morgan.

08:17:10:00 Berkshire, as of the fourth quarter, has-- \$396 million saved. It w-- I was a little surprised by that because, you know, when we've talked about oil investments in the cash, you haven't been that enthralled with most of them overall. This-- a pipeline investment.

WARREN BUFFETT:

08:17:24:00 Yeah. Well, I was a little surprised too. (LAUGH) Yeah. We have two fellas e-- who each had (UNINTEL PHRASE) \$9 billion for us. I look at their holdings once a month. But I-- they don't have to check with me about-- th-- they don't at all. So they-- they run two portfolios. They get-- ba-- based on how those portfolios behave. I've never told 'em to buy anything or-- or sell anything. So that was the decision of-- of one of those two. And they--

BECKY QUICK:

08:17:53:00 Was it Todd or Ted?

WARREN BUFFETT:

08:17:54:00 Well, I th-- I-- I don't think I'll s-- tell us-- which one is doing w-- what. But they-- I think when you see a position of that size, it's probably theirs because-- I'm not gonna do anything, in all likelihood, that doesn't involve-- at least potentially involve-- a few billion (?). So-- now, that could've been the start of something and I was gonna buy more, but that's not the case with (UNINTEL).

BECKY QUICK:

08:18:23:00 You were involved though in the f-- additional purchases of Phillips 66?

WARREN BUFFETT:

08:18:28:00 Right.

BECKY QUICK:

08:18:29:00 So at this point--

08:18:30:00 (OVERTALK)

BECKY QUICK:

08:18:30:00 --you had--

08:18:30:00 (OVERTALK)

WARREN BUFFETT:

08:18:31:00 Billions. (LAUGH) That's me. (LAUGH)

BECKY QUICK:

08:18:35:00 What is the (UNINTEL PHRASE)?

WARREN BUFFETT:

08:18:37:00 Well, I-- I w-- I-- I won't get in the business of (UNINTEL) stocks. But I-- you know, it-- I-- obviously, I like the business or I wouldn't have bought it. But I-- I-- I'm not recommending anything than everybody else. (LAUGH)

BECKY QUICK:

08:18:48:00 Okay. When you--

WARREN BUFFETT:

08:18:50:00 What is important, some people say that is a reflection of how I feel about oil. Yeah, oil refining is much different than oil production. They're-- they're too entirely different businesses. I mean, they have-- you have a little connection in a certain way. But-- but a decision on oil refining or a decision on going in the oil production business, they're night and day.

BECKY QUICK:

08:19:11:00 Because?

WARREN BUFFETT:

08:19:12:00 Well, because in-- in the oil production business, it all depends on the price of oil, whether you're gonna make money in the future. And in the refining business, it all depends on what's called the crack spread, which is just

basically what it costs you to buy oil and sell it. Now, you can make just as much money or more with \$30 oil or \$100 oil, but not if you're a producer. (LAUGH)

BECKY QUICK:

08:19:30:00 So you like the crack spread right now?

WARREN BUFFETT:

08:19:31:00 Well, it-- no, it's not so good right now. (LAUGH) You know, it was better last year. But-- what really helps (LAUGH) in the oil refining business is when somebody shuts down. For example, the Whiting, Indiana refinery sh-- sh-- this is a big one, shut down last year for a while. And-- and that helps the spread, okay?

08:19:48:00 That-- oil refining generally operates in the 90+% of capacity operation. So anytime somebody gets knocked out, either there's planned outages, but then there's also unexpected outages. And-- and if you're-- if you're in the oil refining business, you're hoping that the utilization is very up there, h-- in the high nineties.

BECKY QUICK:

08:20:09:00 Uh-huh (AFFIRM). There-- there's been a battle in the energy field-- in which *Bloomberg Business Week* put you on the cover with Elon Musk, (LAUGH) the two of you kind of battling and fighting over this. Him with SolarCity and you with NV Energy, Nevada Energy-- saying that this is-- a situation where-- billionaires are fighting over this.

08:20:30:00 And w-- it generated a lot of questions from viewers. I-- I'll give you one that came up from-- Maricella Giordano (PH). Says, "Why is your company, Nevada Energy, trying so hard to stop people from converting to solar power in Las Vegas?" Another similar question came from Mike Wood. Says, "Berkshire's been a leader in solar investment. Why are you preventing or deterring that (UNINTEL) in Nevada?"

WARREN BUFFETT:

08:20:52:00 Well, we're-- (THROAT CLEAR)

BECKY QUICK:

08:20:53:00 Explain that to me--

WARREN BUFFETT:

08:20:53:00 We're (UNINTEL)-- oh, well, we don't have a problem with their meters. And we're the leading in renewables in the country-- among the regulated utilities. The only ways we do not want our million plus customers who do not have solar to be buying solar at 10.5 cents when we can churn it out for 'em at 4.5 cents or buy it at 4.5 cents.

08:21:11:00 So we do not want the non-solar customers-- and there're over a million, to be subsidizing the 17,000 solar customers. Now, solar customers are subsidized through the federal government, as we are with our wind and solar operations ourselves. The reason that society believes in subsidizing solar and wind is because of damages to society that may result over decades from carbon emissions. And-- and-- society has an interest in it.

08:21:42:00 And subsidized by the federal government, society is, in effect paying for it. I mean, people who benefit the whole country. In Nevada, they had an arrangement-- for a very limited number of people and-- public utility commissions aside first. They had an arrangement where the utility had to pay way above market for solar produced by the 17,000 houses and (UNINTEL).

BECKY QUICK:

08:22:09:00 (UNINTEL) says, "If I have solar electricity that I'm producing that's more than I need, I can sell it back to you th--"

WARREN BUFFETT:

08:22:14:00 At 10.5 cents when we could buy someplace else for 4.5 cents or make it ourselves for 4.5 cents. And that costs the million plus customers-- twice. And the public utility commission, there's three utility commissioners, (UNINTEL PHRASE) utility commission decided that was unfair to the million plus people who didn't have solar. And they said, "It's fine to sell it back, but sell it back for what it can be bou-- sell it back at market price."

BECKY QUICK:

08:22:38:00 That *Bloomberg Business Week* cover-- really (UNINTEL PHRASE) again is a battle between billionaires with you and Elon Musk. Is-- is that fair? Have you spoken with Elon Musk about this?

WARREN BUFFETT:

08:22:46:00 Elon called me, yeah. (LAUGH)

BECKY QUICK:

08:22:47:00 What'd he say?

WARREN BUFFETT:

08:22:48:00 He was unhappy. He-- he-- I mean, he's-- he's being subsidized with his battery plan (?) big time. Our other customers are actually paying a little more for electricity to subsidize his battery pack (?). And-- they were being charged this higher price for electricity. And now, we can lower prices a little bit for the non-solar people, or under 17,000, can only sell us electricity. It's 'cause we're being phased in over a few years. But eventually, they will only be able to sell it at market price.

BECKY QUICK:

08:23:19:00 So was Elon upset when he called you?

WARREN BUFFETT:

08:23:20:00 Well, he-- (LAUGH) he-- he-- he-- he-- he would like us-- he would like the million people to subsidize the 17,000, just like the rest of Nevada is subsidizing his battery plan.

BECKY QUICK:

08:23:32:00 And when you told him that, how did the conversation end? (LAUGH)

WARREN BUFFETT:

08:23:35:00 Well, it (UNINTEL PHRASE) polite. (LAUGH)

BECKY QUICK:

08:23:40:00 All right-- we'll-- we'll continue this conversation in just a minute. Joe, we'll send it back over to you.

JOE KERNEN:

08:23:45:00 Okay, Becky. Cuing up a viewer question for the oracle of Omaha. We'll have more from Warren Buffett next. (MUSIC) And as we head to break, here's a look back at a moment on the *Squawk Box Ask Warren Show* about four or five years ago, in 2011, when we asked Warren about gold. (MUSIC)

BECKY QUICK:

08:24:02:00 Carl, you've got a question too?

CARL:

08:24:03:00 I'm-- I'm still tryin' to get the image of Warren fondling a giant (LAUGH) block of gold-- (BACKGROUND VOICE) out of my v--

MALE CORRESPONDENT:

08:24:07:00 Fondling it occasionally, what's-- (BACKGROUND VOICE) what stuck with me. (LAUGH)

08:24:10:00 (OVERTALK)

MALE CORRESPONDENT:

08:24:12:00 Folding it th--

WARREN BUFFETT:

08:24:12:00 Make me a giant block (LAUGH)-- maybe a giant block of gold and you'll see me fondle like you've never seen before. (LAUGH) (MUSIC)

08:24:20:00 (COMMERCIAL BREAK)

MALE CORRESPONDENT:

08:26:25:00 (MUSIC) We were really ahead of the game on the oil story. A year and a half ago, we were in Midland, Texas, up at Williston, North Dakota. The initial reaction to oil will (UNINTEL). Good news, low oil means low gas, everything's fine. I think when you dug into this story and realized hundreds of thousands of jobs either lost or at risk, that sort of changed the narrative.

08:26:41:00 But also then, you look at the debt that is behind this story. Hundreds of billions of dollars in debt that is now at risk. (UNINTEL) he said, "No cuts, no cuts, no cuts." That sent oil down and put the stock market forward as well.

MALE CORRESPONDENT:

08:26:55:00 When we come back, much more from our very special guest in the morning, Warren Buffett. As we head to break, take a look at U.S. equity futures at this hour. (UNINTEL PHRASE) in margin with better (UNINTEL PHRASE) would open off about 39 points. *Squawk* returns with Warren Buffett in just a moment. (MUSIC)

08:27:10:00 (COMMERCIAL BREAK)

JOE KERNEN:

08:30:08:00 (MUSIC) Welcome back to *Squawk Box*. Time now for a check on our markets once again. U.S. equity futures have been down all morning down, with-- less than 40 points now, down about 35 on the DOW, down four on the S&P. The NASDAQ up (?) about 12. All those are improved levels from earlier today. And that's one of the reasons because the early sell off in oil, which was never severe, but it-- WTI was down earlier. It's now up along with-- Brent crude. Andrew.

ANDREW ROSS SORKIN:

08:30:34:00 Okay. Let's-- tell you about some corporate news this morning. Disney hoping to use ticket prices to ease traffic problems in its parks. The company rolling out (UNINTEL PHRASE) surge pricing. Think of Uber a little bit-- for single day tickets in both its California and Orlando parks.

08:30:48:00 Prices will now be split into three levels. You can get 'em called value, that's on the lowest price, regular and peak based off projected traffic. Of course, though, it's important to note this is just for one day tickets. Doesn't affect-- multi-day tickets or-- annual passes. In the meantime, we're gonna get back to Becky Quick in Omaha with our special guest for the morning, Warren Buffett. Becky.

BECKY QUICK:

08:31:10:00 An-- Andrew, thank you very much. You know, Warren, we've-- we've talked about a lot of what you laid out in the annual letter. But-- there's stuff here we haven't gotten to. One of those is the significant chunk of space that you took up defending Clayton Homes, which is your mobile home producer.

08:31:26:00 The company's been under attack. There have been a series of articles in *The Seattle Times*. And-- and some that have been in conjunction with *BuzzFeed*. And there have been charges. The most recent charges-- you don't directly take on some of the charges that they brought up. But one of 'em is that you charge minorities higher rates than-- than white people for sales of mobile homes. What-- what do you say to that?

WARREN BUFFETT:

08:31:48:00 It's not true. It's not-- w-- there're a variety of factors that enter into the rate charge. The average rate was about 8.8% last year. But these are smaller loans. These are not quarter of a million dollar loans of service, they're \$60,000 loans. And-- and they're made for people with lower FICA scores on average. People with-- lower income people.

08:32:08:00 70% of the houses bought by lower income people-- \$150,000 and under houses were manufactured homes last year. But it depends on your down payment. It depends on your FICA score. It depends on your-- your earnings. It depends on the percent of your earnings going to-- to-- housing. It-- it depends on whether you own the land. Th-- there's a whole variety of-- of items.

08:32:33:00 And th-- they're all-- their price or something that has nothing to do (LAUGH) with-- with your religion or your-- you know, your-- your-- your color or anything of the sort. And-- and if you have a lower down payment on average, you'll-- you'll pay (UNINTEL) a higher rate than if you have a higher down payment. If you have land, you'll pay a lower payment than if you don't have land. And there-- (UNINTEL)--

BECKY QUICK:

08:32:52:00 Because the land's collateral? Is that--

WARREN BUFFETT:

08:32:53:00 Well, the land-- yeah. If the land becomes part of the collateral for the-- for the loan. If you have a higher percentage of your income going to-- to-- mortgage payments, you'll-- you'll pay-- you'll pay a little more. And-- and-- but similarly, the other way around. If you have a higher (LAUGH) one, you'll pay less.

08:33:12:00 So-- there's a range of rates. It's not a huge range, but there's a range of rates depending on your credit worthiness. And we are lending to people who are lower income, on average. These people would not have a home otherwise. But at the end of the year, 95 fi-- 95.4% of our dollars were (UNINTEL PHRASE) payments.

08:33:32:00 And-- and we will have a home at the annual meeting that I think will cost \$78,000 and (UNINTEL) that you have to have the land. And I will guarantee you, you'll think that's a very decent-- those are very decent living quarters for that sum. I mean, we're-- we're taking care of a lotta people that would not otherwise have the chance for homeownership.

BECKY QUICK:

08:33:54:00 But you went through very specifically-- *The Seattle Times*, I should say, went through very specifically and made some charges where they looked at very specific cases, where they said people were lied to on tape about-- whether or not there were other available lenders. Situations like that. Have you looked into--

WARREN BUFFETT:

08:34:09:00 Every--

BECKY QUICK:

08:34:10:00 --all of this?

WARREN BUFFETT:

08:34:10:00 --every single-- we-- we've got a copy in the annual report of a one page item that lists the available letters. It says, "No d-- more than one." We don't make all the loans that are taken on our houses. They go to-- the local bank often makes 'em. But there are local banks on (UNINTEL) making homes, not manufacturing homes.

08:34:27:00 But in every office of ours, we have a person on the wall that read-- it's a one page saying. It's big type. They sign it. Now, does that mean that every single transaction gets handled perfectly? No. And that's true. I mean, we got 330,000 employees at Berkshire, and I will guarantee you somebody's doing (LAUGH) something they shouldn't do today.

08:34:47:00 But in terms of the-- th-- the tone at the top, the instructions. And I should point out in the last two years, we've had 65 examinations, including examinations from 25 different state and federal. And the total amount of fines we paid was \$38,000 or something like that. And we made some refunds for \$700,000. But we get-- we've got-- we've got 300,000 loans. We're constantly examined by all the states in which we do business and by the federal government. And, you know, if you look at our record compared to most others, I think it's pretty darn good.

BECKY QUICK:

08:35:25:00 Uh-huh (AFFIRM). Joe?

JOE KERNEN:

08:35:26:00 Quick question. Thanks, Beck. I mean, Warren-- I love when you talk about how everyone in your neighborhood lives better than-- than John D. Rockefeller on-- and it's \$100,000. And-- and we're gonna keep gettin' greater and greater. I love that. I love hearin' that. So you saw that Google-- robot from last week or somethin', like, runnin' through the trees and fallin' over and gettin' back up.

08:35:47:00 So we hear that manual labor's probably gonna be replaced eventually by-- by robots. We made it through-- there's no more really ditch digging. We have earth moving equipment, really. And agriculture, you look at what agriculture used to employ and you looked at the way we do it now. We've managed to-- to find a way to employ people-- as we've gotten better through technology at all these things.

08:36:10:00 My buddy Andrew and-- you've got me worrying a little bit, finally, about this now. The population of the world keeps growing. Throw in artificial intelligence, where who knows, maybe it won't just be manual labor, maybe

it'll be, you know, average-- brain intensive stuff eventually is done by machines too. You sure that we can keep up-- gev-- givin' everyone a job when so much technology is-- is doing so much? Is it still a reason to be optimistic about the future?

WARREN BUFFETT:

08:36:39:00 Well, Joe, w-- wouldn't it be wonderful if someday we got to the point where there were robots everyplace. They were running farms, they were running Apple, they were running Berkshire Hathaway. And all you had to do was one person could p-- punch a button at the start of every morning and all the goods and services that we're getting now would be turned out by robots or whatever?

08:37:00:00 And we'd have the goods. We'd have 18 million cars a year. You'd have a million more housing starts. We'd have all the iPads being sold. And if all of that came to one person pushing a button, would that be a tragedy? (LAUGH) I mean, just think how w-- how well we'd live. Now we'd have-- instead of having to work 35 hours a week, we might work an hour a week or something of the sort.

08:37:20:00 So, I mean, basically, the more output you can get from people, it-- it frees 'em up to do other things. And one of the things it frees 'em up to do is work less. We work less than people did 100 years ago. And what we've elected to do is bring down the work week, to some extent. But also, have a huge amou-- abundance of goods beyond what we had at that time.

08:37:40:00 And I will guarantee you that if somebody in 1900 when there were 40 million people working and however many were on fa-- farms, and if some p-- candidate for president had said, "Ele-- nine million of you, 11 million are gonna be displaced by a bunch of machinery--" you know, he probably would've won the election. And-- and I (LAUGH)-- and I promise you (LAUGH) we'd g-- you know, it is-- if-- Joe, if-- if-- if we get so you can just press a button--

JOE KERNEN:

08:38:07:00 Okay, good.

WARREN BUFFETT:

08:38:07:00 --and everything is produced, you know, that--

08:38:10:00 (OVERTALK)

ANDREW ROSS SORKIN:

08:38:11:00 But Warren, one of the questions that has been raised is-- is-- and I don't, by the way, suspect this is even an issue for the next 20 or 25 years, but perhaps longer term there is an issue which is to say then are you getting into a whole issue of redistribution of wealth? What does it say about-- individual-- responsibility, capitalism?

08:38:29:00 Some people talk about-- you know-- a wage that would be given-- across the board. I mean, literally, that the government would just provide this wage to you. I mean, it sort of raises all sorts of questions the farther you get out with it.

WARREN BUFFETT:

08:38:44:00 Yeah. And Andrew, I agree totally with that. And-- as capitalism and the market system get more specialized, it does leave more and more people behind. In 1900, if you could work on a farm, you could earn something reasonably close to the median income. I mean, there was not a huge disparity between one farm worker and another and-- and the wages you could make that way.

08:39:07:00 Is-- and-- and-- compared to what you'd make in some more specialized occupation. As the economy gets more and more specialized, it pushes more and more of the rewards the market system offers, it pushes those to people with specialized talents. And it leaves behind people who have talents that were valued 100 years ago. And there's no question about that. But a prosperous society can take care of that. As I've pointed out in the annual report, if we just get 2% a year growth in one generation, there will be \$76,000 more of output for a family of four in the United States. \$76,000 more GDP for a family of four from simply 2% growth. Now, it will get-- the market system left alone will produce more and more of that for guys at the top, like me.

08:39:56:00 And it will leave a lotta people behind. But we can solve that. I mean, we-- we-- we should have-- we should have a cut through (?) that works for people who are willing to work. I think an earned income tax credit-- of-- improved and-- and-- expanded-- is (UNINTEL) called for because we'll have the output. The question is who gets it. We're gonna have a whole lot more output.

08:40:19:00 Just like we have six times as much output now per capita. Real output. Like when I was born. If you told my parents in 1930 we'd have six times the output that they had at that time per capita, they woulda said, "Well, everybody's gonna be living wonderfully." And it hasn't been true because specialization pushes more and more to the

top. I mean, the very fact of cable TV. I mean, it makes-- it makes somebody that is the best middleweight in the country worth, you know, \$40 million or \$50 million for a fight.

08:40:50:00 And, you know, back in the '30s, he-- he got what you could get out of 8,000 people (LAUGH) in-- in-- in a room. So all-- this-- it-- it-- it really pushes for the people who have special talents valued by the market. And it turns out more and more stuff. But absent some intervention by government, it will leave all that stuff with the top-- at-- at the top.

08:41:10:00 But (UNINTEL), I don't think it's what our country should be about over time. I think there should be enormous differences in the results. But I also think that anybody who's willing to work in-- in a country that's getting every more prosperous, should find that that country works for themselves.

MALE CORRESPONDENT:

08:41:27:00 Hmm. Hmm. We had to--

WARREN BUFFETT:

08:41:28:00 And if you want a little unearned income-- Joe, if you want a little unearned income, all you have to do is fill that bracket out, you know, and get to the 316 and you'll get \$1 million a year for the rest of your life.

JOE KERNEN:

08:41:37:00 I know. And you know what I'm gonna be doin'? I'm gonna be takin', like, \$9,000 in cash every week. And I don't know what-- still don't know what I'm gonna spend it on, (LAUGH) but-- if I ever get like you, I wanna-- I want-- I just wanna touch \$9,000 someday. But, you know, if Larry Summers is right, it's gonna be in quarters. (LAUGH) That would be heavy to carry around. I got--

WARREN BUFFETT:

08:41:58:00 (UNINTEL PHRASE) if you wanna get called out by the F.B.I., take out \$9,000 every (LAUGH) week.

MALE CORRESPONDENT:

08:42:03:00 Yeah.

WARREN BUFFETT:

08:42:04:00 You'll have two new friends.

MALE CORRESPONDENT:

08:42:05:00 Oh, I know. I know. (UNINTEL PHRASE). You know what? Let's go. Go ahead, Becky. I think we're gonna-- you wanna (LAUGH) take-- you wanna take us out-- you wanna take us outta here before I-- go ahead, Beck--

BECKY QUICK:

08:42:16:00 Yeah, before we get ourselves in trouble. (LAUGH) When we come back, we're gonna have much more from our special guest, Warren Buffett. Right now, as we head to a break though, take a look at the U.S. equity futures. They have been under a little bit of pressure this morning, although things have evened out quite a bit. Yeah, in fact, things have turned positive. The DOW futures' now up by about seven points. (MUSIC) S&P futures up by 1.5. The NASDAQ is flat. Stick around, *Squawk Box*'ll be right back.

08:42:37:00 (COMMERCIAL BREAK)

BECKY QUICK:

08:45:13:00 Welcome back, everybody, to this special edition of *Squawk Box*. We wanna make sure we get more of our viewers' questions. You've been writing in questions for Warren Buffett and we're gonna take some more of those right now. Warren-- Gavin Smith writes in and he wants to know, "Do you have a view on Brexit? We are-- should the U.K. leave the European Union?"

WARREN BUFFETT:

08:45:29:00 It-- I think I'll leave that to the British. I-- I hope they stay in, but that-- they-- they have to make their decision, obviously, based on what they think is best for the U.K.

BECKY QUICK:

08:45:36:00 Why do you hope they stay in?

WARREN BUFFETT:

08:45:37:00 Well, I just think that stability-- I'm-- I'm hoping the European Union works out well. I hope the European Monetary Union works out well. And I think that-- that it would probably be some downside to U.K. not-- they're-- not that they're in the monetary union. But-- the more Europe does learn to work together over time-- I mean, I think the European Monetary Unit is flawed, as I've said in the past.

08:46:03:00 But-- but that doesn't mean-- you know, we started out in our own p-- arrangement with the 13 states and we had a lotta problems to work through. So I-- I-- you know, it-- it's up to the-- it's up to the citizens of the U.K. to figure out what's the best for themselves. I-- I hope that they stay in.

BECKY QUICK:

08:46:20:00 You're-- you hope that they stay in because of stability. What-- what do you think would happen to financial markets-- if-- if they do vote to-- to pull out?

WARREN BUFFETT:

08:46:28:00 I-- I don't-- it wer-- it won't make any difference to anything Berkshire does. I mean, if I was assured by Cameron that they were (LAUGH) gonna stay in or leave, it wouldn't change one iota what I'm doing in businesses or stocks.

BECKY QUICK:

08:46:40:00 Okay. Another question that came in from Eric Dubowsky (PH). He says that-- "We didn't talk much about negative real-- rates across much of the world. Shouldn't we be borrowing and (UNINTEL)?" I-- I know we touched on negative rates this (UNINTEL)--

WARREN BUFFETT:

08:46:54:00 Well-- well, negative rates affect everybody's behavior. I mean, I-- I probably-- hell, I know that I pay more for precision cast parts because interest rates are so low, than I would've paid if interest rates were 6% or 8%. I mean, it-- it absolutely has an effect on my behavior. And-- and for people that use a lot of our money, it has a huge effect.

08:47:14:00 So it-- I mean, it is a s-- huge stimulus (UNINTEL). It's terrible on people that are-- that are lending. I mean, for somebody-- just retired and who's always afraid of owning stocks or something, and therefore, kept their money in banks, I mean, they've gotten killed. So you really had the borrowing class-- getting enormously subsidized by the lending class for these overriding-- (UNINTEL) reason.

08:47:40:00 But-- you know, it's-- it's really rearranged the income big time of-- a lot of the citizens of the United States. And-- and I never would've thought it would continue this long. But I also thought a year ago it would have to continue if the Europeans kept (LAUGH) doing what they were doing. It could be-- it-- nobody's seen this movie before. And you can go back and read all the great economists and nobody's (UNINTEL) about a long period of negative interest rates.

BECKY QUICK:

08:48:11:00 Joe, you have a question?

JOE KERNEN:

08:48:12:00 Lookin' at an STPs-- Warren, and it-- I-- I guess you had in addition to the Clayton Homes w-- that you-- you outlined, that-- that kind of a controversy or whatever you wanna call it, there's also some-- some shareholders that are mad that you don't-- have climate change as one of the key risks of Berkshire Hathaway's Insurance Business. And they're-- they're-- you know, people are taking it, depending on ha-- what they believe in, they're using it to put forth Warner (?) and other-- opinions.

08:48:42:00 I was gonna ask you in a different way earlier, if you're very optimistic about the future-- I am well-- y-- you know that CO2's gonna continue to rise because of China and-- and India for the next ten, 15, 20 years. If you believe the alarmist case, I g-- I don't know how you can be quite so optimistic because our-- our ability to deal with it is-- you know, is questionable at this point.

WARREN BUFFETT:

08:49:06:00 Yeah, well, the question is right. Yeah, and actually, it's a proposition that's put forth on the proxy statement of Berkshire buyer shareholder. And I'm sure with very w-- well intentioned shareholder, I mean, this shareholder's worried about the effect of climate change on our insurance business. And in the annual report, I've gone into quite (UNINTEL).

08:49:24:00 But the truth is it's not a risk to our insurance business. In fact, it may very well be a plus. But the-- that doesn't mean that it's not a problem for society. But we write our insurance policies one year at a time. And we adjust to changes in the world. I mean-- there're way more automobiles on the road than there were 30 years ago or 50 years ago.

08:49:46:00 Well, you know, somebody coulda said, "Well, with all those automobiles on-- on the road, won't there be more accidents and won't you have more insurance-- claims to pay?" Well, of course. But we adjust our insurance (BACKGROUND VOICE) rates every single case. And it-- it is not-- it is not a threat to our insurance operation.

MALE CORRESPONDENT:

08:50:00:00 But-- but Warren-- th-- y-- I don't even think your premiums have necessarily been raised-- at-- at this point. And with-- with all we hear about supposedly that it's front and center that the effects of this are happening as we speak-- week in and week out with every adverse weather event, when would you expect to see Miami real estate start to weaken? When would you expect to see insurance rates start to go up, as they invariably must, if all these things really are becoming more frequent? Why is it not happening?

WARREN BUFFETT:

08:50:34:00 Well, I-- I think-- I think it's a little-- (THROAT CLEAR) in terms of insurance rates, I think it's probably a long way off. But if I'm wrong, we'll change 'em. But-- my-- my friend Bill Gates, who's--

MALE CORRESPONDENT:

08:50:44:00 (UNINTEL) already here.

08:50:45:00 (OVERTALK)

MALE CORRESPONDENT:

08:50:45:00 Certainly on here on the subject. Supposedly, already here.

WARREN BUFFETT:

08:50:47:00 Yeah. And no-- pardon me?

MALE CORRESPONDENT:

08:50:51:00 A lot of the adverse weather events that we see now are tied to us already. So it's not supposedly unless supposedly it's front and center right now if you believe th-- those true alarmists.

WARREN BUFFETT:

08:51:02:00 Well-- it has not caused-- a change in insured losses-- that is any way different than I would expect if there were no talk about it. I mean, it-- it-- it may well in 20 years or 30 years, I don't know. But-- the one thing I can tell you is that it hasn't caused it now. In fact, rates are down and that's-- the reason we're not writing catastrophe insurance at Berkshire Hathaway is because the rates have gone down for catastrophe insurance. More of that has gone for longer without a hurricane hitting land in any time since--

MALE CORRESPONDENT:

08:51:37:00 I know.

WARREN BUFFETT:

08:51:37:00 --in the early 1800s. So it-- you know, it-- it just is not an insurance risk.

JOE KERNEN:

08:51:43:00 That's one of the benefits of having you on ev-- every year because I remember our conversation after-- that year when there were-- you remember, we ran out of the-- we had to go to the Greek alphabet 'cause we ran out of name storms that one year. And-- and you were-- you were, like-- I could see it-- in your-- your, like, your Cheshire king--

you-- you knew rates were gonna be up, but you knew the probability was there weren't gonna be that many hurricanes probably the next year. And as it turned out, it's been the longest period in history without a category three making landfall. And-- and you've been rakin' the-- the premiums.

WARREN BUFFETT:

08:52:17:00 You've got-- you've got a future with us as an insurance underwriter, (LAUGH) Joe. You under-- you understand-- you understand-- Joe, you understand that if two twelves come up in a row, it doesn't mean (LAUGH) the chances of a 12 coming up have changed from--

JOE KERNEN:

08:52:31:00 You knew.

WARREN BUFFETT:

08:52:31:00 --one in 36. (LAUGH)

JOE KERNEN:

08:52:32:00 You knew. You knew. You knew in spite of everything, all these other, you know, (UNINTEL) linin' up, but you knew. Anyway, thanks.

ANDREW ROSS SORKIN:

08:52:40:00 Okay. We're gonna-- come back to Warren in just a minute. A lot more questions (MUSIC) for him before the show is up. And tomorrow, we should tell you, of course, Super Tuesday. Voters in a dozen states are gonna go to the polls. Gonna tell you what to expect when results come rolling in starting tomorrow at 6:00 a.m. Eastern Time. Back in a moment with Warren Buffett.

08:52:59:00 (COMMERCIAL BREAK)

BECKY QUICK:

08:55:48:00 Welcome back. We are live with Warren Buffett from Omaha, Nebraska this morning. Warren, Joe was just asking about why climate change wasn't in the risk factors. But th-- that was-- an interesting thing you put in the letter this time, risk factors that you normally don't lay out.

08:56:01:00 One of the risks that you laid out was-- an issue like how driverless cars could have an adverse impact on both Geico and on your-- auto companies. What-- you know, you think through how you get around that, but if-- if driverless cars are driving everybody around, what would you do? How do you evolve in a situation--

WARREN BUFFETT:

08:56:18:00 Well--

BECKY QUICK:

08:56:19:00 --like that?

WARREN BUFFETT:

08:56:19:00 --the only way they'll be driving everybody around if they're-- is probably if they're s-- regarded as a lot safer. And-- we'll find that out as we go along. But--

08:56:29:00 (OVERTALK)

BECKY QUICK:

08:56:29:00 But there have been faster advances in this than I would've expected a few years ago.

WARREN BUFFETT:

08:56:33:00 Yeah. I w-- I would-- I would say that. But I would also say, if you ask me to take the over or under-- 2030, what percent of the cars on the road in the United States are driverless, I would take the under-- 10%. But I may be wrong. There's-- there's a long bot-- LongBets.com you could go to on the internet. You can make a bet on something like that, I was tryin' to get on the hedge fund guys.

08:56:55:00 But I would think under 10%, but I may be wrong. And there's no question if you have 50% driverless cars or 75% driverless cars-- the premium-- auto premium buying would be-- very likely be far less. And-- and probably the dealership arrangement in the United States would be changed in some way that's hard to predict.

BECKY QUICK:

08:57:15:00 Th-- I understand the Geico issue and the-- Geico stuff that comes with that. The dealerships, I-- I mean, people would still need cars.

WARREN BUFFETT:

08:57:22:00 Well, I think-- w-- w-- well, we'll see. But-- maybe. But driverless cars would seem to me to be appealing on things much more than style and that sort of thing. I-- I-- I-- I think that it would become a more homogeneous product. I may be wrong. But I-- I-- that's my impression.

BECKY QUICK:

08:57:41:00 You know, I-- I have a couple of quotes that I wanted to run by you. Someone tweeted, "Don't take vacations. What's the point? If you're not enjoying your work, you're in the wrong job." That sounded a little like something you might say. But it was something that Donald Trump tweeted. (LAUGH)

WARREN BUFFETT:

08:57:56:00 Well, that-- I-- I don't know whether he feels he's in the wrong job now, that (LAUGH)-- that's why he's looking for something else. I-- oh, I-- I absolutely advise stu-- that students last week, 160 of 'em from Harvard and sou-- South Dakota State. I just tell 'em, "Try to find your passion." And-- and, I mean, may not find it the first time.

08:58:13:00 But, you know, don't sleepwalk through life. Find something that you really enjoy doing, if you can do it. And not-- you know, not everybody's lucky enough to be able to-- to find that. But it's-- it-- it oughta be your goal. To-- to make \$10 a week more doing something that you're-- don't feel good about, compared to something you'd feel good about, yeah, make the change.

BECKY QUICK:

08:58:31:00 You said you watched Bill Gates on *Charlie Rose* last week, and I did too. Bill said something that I thought was really interesting. He said, "The thing you do obsessively between age 13 and 18, that's the thing you have the most chance of being world class at." Bill said his one thing was coding. What was your one--

WARREN BUFFETT:

08:58:46:00 Well, I-- I was pretty interested (LAUGH) in investments. No, Bill and I, his father many years ago, right after we met, had us, a group of about 20, write down on a sheet of paper one word that they thought accounted for their success. And Bill and I, who may have only met twice, didn't know what the other one was writing down, we both wrote down the same word, which was focus. And he was focused on software, I was focused on investments. And-- it-- it-- it gave me a big advantage to start very young, there's no question about it.

BECKY QUICK:

08:59:13:00 Uh-huh (AFFIRM). Well, Warren, I wanna thank you for your time today. We really appreciate having you.

WARREN BUFFETT:

08:59:17:00 Thanks for having me.

BECKY QUICK:

08:59:18:00 It's been (LAUGH)--

08:59:18:00 (WARREN BUFFETT: UNINTEL)

BECKY QUICK:

08:59:19:00 And Joe and Andrew, I'll send it back to you guys, if you guys have any last minute--

JOE KERNEN:

08:59:21:00 Thank you.

BECKY QUICK:

08:59:22:00 --questions for him, so.

JOE KERNEN:

08:59:22:00 Me and Andrew both looked at each other and we said-- "That's absolutely true," right? (LAUGH) We got really, really (LAUGH)-- I think that is absolutely--

ANDREW ROSS SORKIN:

08:59:30:00 I-- I-- (UNINTEL)--

JOE KERNEN:

08:59:31:00 --that what we did did between 13 and 18, except we got so F-ing good at that, did we not--

ANDREW ROSS SORKIN:

08:59:37:00 I don't know what--

JOE KERNEN:

08:59:37:00 --Andrew?

ANDREW ROSS SORKIN:

08:59:38:00 --you're talking about. I don't know (LAUGH) what you're talking about--

JOE KERNEN:

08:59:39:00 I love that quote. I mean, you've gotta be kidding me, (LAUGH) right? I read that. I'm, like, I started laughing. (LAUGH) And (UNINTEL) Andrew, but--

08:59:45:00 (BECKY QUICK: UNINTEL)

ANDREW ROSS SORKIN:

08:59:47:00 I was not laughing and I don't know what this gentleman is talking about. (LAUGH)

JOE KERNEN:

08:59:50:00 Man, that's true. I was laughing--

WARREN BUFFETT:

08:59:52:00 Come to me right now-- come to (UNINTEL PHRASE) in success. (LAUGH) Like a gold medal, don't (UNINTEL PHRASE) your concession.

JOE KERNEN:

08:59:57:00 I can win the-- we can win the gold. (LAUGH) Thank you.

ANDREW ROSS SORKIN:

09:00:01:00 Warren, thank you--

BECKY QUICK:

09:00:01:00 I'm glad you were listening, Joe-- (LAUGH)

MALE CORRESPONDENT:

09:00:03:00 Make sure you join us--

WARREN BUFFETT:

09:00:04:00 Nice to be with you. (LAUGH)

MALE CORRESPONDENT:

09:00:05:00 Great to be with you, Warren. *Squawk on the Street* is next. (MUSIC)

* * *END OF TRANSCRIPT* * *