

Warren Buffett sat down for a taped interview with Susie Gharib of Nightly Business Report to mark the PBS program's 30th anniversary on January 22, 2009.



In the conversation, Buffett says the credit crunch is easing but business conditions are getting worse. He also hints Berkshire Hathaway might buy back some of its stock since it has fallen so sharply from its highs.

Buffett and Gharib cover a number of other subjects, including how much advice he's giving President Obama, the government's attempts to stimulate the economy, and the Bernard Madoff scandal.

This is a transcript of that entire interview, as provided to us by NBR, with some light editing by CNBC.com.

SUSIE GHARIB, ANCHOR, NIGHTLY BUSINESS REPORT: Are we overly optimistic about what President Obama can do?

WARREN BUFFETT, CHAIRMAN, BERKSHIRE HATHAWAY: Well, I think if you think that he can turn things around in a month or three months or six months and there's going to be some magical transformation since he took office on the 20th, that can't happen and wouldn't happen. So you don't want to get into Superman-type expectations. On the other hand, I don't think there's anybody better than you could have had, have in the presidency than Barack Obama at this time. He understands economics. He's a very smart guy. He's a cool rational-type thinker. He will work with the right kind of people. So you've got the right person in the operating room, but it doesn't mean the patient is going to leave the hospital tomorrow.

GHARIB: Mr. Buffett, I know that you're close to President Obama. What are you advising him?

BUFFETT: Well, I'm not advising him really, but if I were I wouldn't be able to talk about it. I am available any time. But he's got all kinds of talent right back there with him in Washington. Plus he's a talent himself so if I never contributed anything for him, fine.

GHARIB: But I know that during the election that you were one of his economic advisors, what were you telling him?

BUFFETT: I was telling him business was going to be awful during the election, period, and that we were coming up in November to a terrible economic scene which would be even worse probably when he got inaugurated. So far I've been either lucky or right on that. But he's got the right ideas. He believes in the same things I believe in. America's best days are ahead

and that we've got a great economic machine, it's sputtering now. And he believes there could be a more equitable job done in distributing the rewards of this great machine. But he doesn't need my advice on anything.

GHARIB: How often do you talk to him?

BUFFETT: Not often, not often, no, no, and it will be less often now that he's in the office. He's got a lot of talent around him.

GHARIB: What's the most important thing you think he needs to fix?

BUFFETT: Well the most important thing to fix right now is the economy. We have a business slowdown, particularly after October 1st, it was sort of on a glide path downward up til roughly October 1st, and then it went into a real nosedive. In fact, in September I said we were in an economic Pearl Harbor and I've never used that phrase before. So he really has a tough economic situation and that's his number one job. Now his number one job always is to keep America safe. That goes without saying.

GHARIB: But when you look at the economy, what do you think is the most important thing he needs to fix in the economy?

BUFFETT: Well, we've had to get the credit system partially fixed in order for the economy to have a chance of starting to turn around. But there's no magic bullet on this. They're going to throw everything from the government they can in. As I said, the Treasury is going all in, the Fed, and they have to, and that isn't necessarily going to produce anything dramatic in the short-term at all. Over time, the American economy is going to work fine.

GHARIB: There is considerable debate, as you know, about whether President Obama is taking the right steps so we don't get in this kind of economic mess again. Where do you stand on that debate?

BUFFETT: Well, I don't think the worry right now should be about the next one. The worry should be about the present one. Let's get this fire out and then we'll figure out fire prevention for the future. But really, the important thing to do now is to figure out how we get the American economy restarted and that's not going to be easy and it's not going to be soon, but it's going to get done.

GHARIB: But there is debate about whether there should be fiscal stimulus, whether tax cuts work or not. There is all of this academic debate among economists. What do you think? Is that the right way to go with stimulus and tax cuts?

BUFFETT: The answer is nobody knows. The economists don't know. All you know is you throw everything at it and whether it's more effective if you're fighting a fire to be concentrating the water flow on this part or that part. You're going to use every weapon you have in fighting it. And people, they do not know exactly what the effects are. Economists like to talk about it, but in the end they've been very, very wrong and most of them in recent years on this. We don't know the perfect answers on it. What we do know is to stand by and do nothing is a terrible mistake or to follow Hoover-like policies would be a mistake and we don't know how effective, in the short-run, we don't know how effective this will be and how quickly things will right themselves. We do know over time the American machine works wonderfully and it will work wonderfully again.

GHARIB: But are we creating new problems?

BUFFETT: Always.

GHARIB: How worried are you about these multi-trillion dollar deficits?

BUFFETT: You can't just do one thing in economics. Anytime somebody says 'I'm going to do this', you have to say, 'And then what?' And there is no free lunch, so if you pour money at this problem, you do have aftereffects. You create certain problems. I mean you are giving a medicine dosage to the patient on a scale that we haven't seen in this country. And there will be aftereffects and they can't be predicted exactly. But certainly the potential is there for inflationary consequences that would be significant.

GHARIB: We all know that in the long-run everything is going to work out, but as you analyze President Obama's economic plan, what do you think are the trade-offs? What are the consequences?

BUFFETT: Well, the trade-off, the trade-off basically is that you risk setting in motion forces that will be very hard to stop in terms of inflation down the road and you are creating an imbalance between revenues and expenses in the government that is a lot easier to create than it will be to correct later on. But those are problems worth taking on, but you don't get a free lunch.

GHARIB: What about the regulatory system? Is it a matter of making new rules or simply doing a better job at enforcing the rules we already have?

BUFFETT: Well, there are probably some new rules needed, but the regulatory system, I don't think, could have stopped this. Once you get the bubble going, once the American public, the U.S. Congress, all the commentators, the media, everybody else, started thinking house prices could go nothing but up, you were creating a bubble that would have huge consequences because the asset class was so big. I mean, you had 22 trillion dollars, probably, worth of homes. It was the biggest asset of most American families and you let them borrow 100% of, in many cases, of the price of those and you let them refi up to where they kept taking out more and more and treating it as an ATM machine. The bubble was going to happen.

GHARIB: But everybody is talking about, OK, we need more rules, we have to enforce them, we need to go after every institution, every financial market. Do you think that new rules will do the trick or do we have enough rules, we just have to police better?

BUFFETT: Well, you can have a rule, for example, to prevent another real estate bubble. You just require that anybody bought a house to put 20% down and make sure that the payments were not more than a third of their income. Now we would not have a big bust ever in real estate again, but we also would have people screaming that you're denying home ownership to all these people, that you got a home yourself and now you're saying a guy with a 5% down payment shouldn't get one. So I think it's very tough to put rules out. I mean, I can design rules that will prevent it but it will have other consequences. It's like I say, in economics you can't just do one thing. And where the balance is struck on that, will be a political question. My guess is that it won't be struck particularly well, but that's just the nature of politics.

GHARIB: You've said that we're in an economic Pearl Harbor, so how bad are things really?

BUFFETT: They're bad, they're bad. The credit situation is getting a little better now. Things have loosened up from a month ago in the corporate debt market. But the rate of business descent is at a pretty alarming pace. I mean, there is no question things have really slowed down. Peoples' buying habits have changed. Fear has taken over and fear is a tough thing to fight because you can't go on television and say don't be afraid, that doesn't work. People will get over it. They got greedy and they got over being greedy. But it took a while to get over being greedy and now the pendulum has swung way over to the fear side. They'll get over that and we just hope that they don't go too far back to the greed side.

GHARIB: What's your view on the recession? How much longer is it going to last?

BUFFETT: I don't know. I don't know. I don't know the answer to these things. The only thing is I know that I don't know. Maybe other people think they know, but I have no idea.

GHARIB: The last time we talked, you said back in the spring, you said the recession is not going to be a short-haul thing. What is your feel for it right now?

BUFFETT: It isn't going to be short, but I just don't know, Susie. If I knew that. There's no way of knowing.

GHARIB: Berkshire Hathaway is in a lot of businesses that are economically sensitive, like furniture, paint, bricks. Do you see any signs of a pick-up?

BUFFETT: No. No. The businesses that are either construction or housing-related, or that are just plain consumer businesses, they're doing very, very poorly. The American consumer has stepped back, big time, and it's contagious and there's a feedback mechanism because once you hear about this then you get fearful and then don't do things at all. And that will end at a point, but it hasn't ended at this point. Now fortunately our two biggest businesses are not really tied that way - in insurance and in our utility business we don't feel that, of course, those are different things. But everything that's consumer related feels it big time.

GHARIB: My question to you is, do you think that the psyche of the American consumer has changed, becoming more savers than spenders?

BUFFETT: Well, it certainly has at this point and my guess is that continues for quite a while. What it will be five years from now, I have no idea. I mean the American consumer when they're confident they spend and they're not confident now, and they've cut it back. But who knows whether.. I doubt that that's a permanent reset of behavior, but I think it's more than a one-day or one-week or one-month wonder in that case.

GHARIB: Is that a bad thing?

BUFFETT: Well, it just depends who the consumer is. I mean, consumer debt within reason makes sense. It makes sense to take out a mortgage and own a home, particularly if you aren't buying during a bubble. You are normally going to see house price appreciation if you don't buy during a time when people are all excited about it. So I don't have any moral feelings about debt as to how people should.. I think people should only take on what they can handle though and that gets to their income level.

GHARIB: Let me ask it this way, Americans saving more may be good for consumers, but is that bad for business?

BUFFETT: Well, it's certainly bad for business in the short-term. Now whether it's better for business over a 10 or 20-year period... If the American public gets itself in better shape financially that presumably is good for business down the road, but while they're getting themselves in better shape, it isn't much fun for the merchant on Main Street.

GHARIB: One thing that Americans aren't buying these days are stocks. Should they be buying?

BUFFETT: Well, just as many people buy a stock everyday as sell one so there are people buying stocks everyday and we're buying stocks as we go along. If they're buying into a business they understand at a sensible price they should be buying them. That's true at any time. There are a lot more things selling at sensible prices now than there were two years ago. So clearly it's a better time to buying stocks than a couple of years ago. Is it better than tomorrow? I have no idea.

GHARIB: This financial crisis has been extraordinary in so many ways. How has it changed your approach to investing?

BUFFETT: Doesn't change my approach at all. My approach to investing I learned in 1949 or '50 from a book by Ben Graham and it's never changed.

GHARIB: So many people I have talked to this past year say this was unprecedented, the unthinkable happened. And that hasn't at all impacted your philosophy on this?

BUFFETT: No, and if I were buying a farm, I wouldn't change my ideas about how to buy a farm or an apartment house or a business, and that's all a stock is, it's part of a business. So if I were going to buy stock in a private business here in Omaha, I'd look at it just like I would have looked at it two years ago and I'll look at it the same way two years from now. I look at how much I am getting for my money, how good the management is, how the competitive position of that business compares to others, how durable it is and just fundamental questions. The stock market is, you can forget about that. Any stock I buy I will be happy owning it if they close the stock market for five years tomorrow. In other words I am buying a business. I'm not buying a stock. I'm buying a little piece of a business, just like I buy a farm. And that doesn't change. And all the newspaper headlines of the world don't change that. It doesn't mean you can't buy it cheaper tomorrow. It may turn out that way. But the real question is did I get my money's worth when I bought it?

GHARIB: One of your famous investing principles is, "Be fearful when others are greedy and greedy when others are fearful." So is this the time to be greedy, right?

BUFFETT: Yeah. My greed quotient has risen as stocks have gone down. There's no question about that. The cheaper something gets that you're going to buy, the happier you feel, right? You're going to buy groceries the rest of your life; you want grocery prices to go up or down? You want them to go down. And if they go down you don't think, gee, I got those groceries sitting in my cabinet at home and I've lost money on those. You think I am buying my groceries cheaper, I am going to keep buying groceries. Now if you're a seller, net, obviously you like prices higher. But most people listening to this program, certainly I, myself, and Berkshire Hathaway, we're going to be buying businesses over time. We like the idea of businesses getting cheaper.

GHARIB: So where do you see the opportunities in the stock market right now?

BUFFETT: That one I wouldn't tell you about.

GHARIB: Let me throw out some sectors and you just tell me quickly how you feel about these sectors.

BUFFETT: Susie, I am not going to recommend anything.

GHARIB: Even in general? For example, a lot of people now are looking at infrastructure companies. Is that a sector that you find attractive?

BUFFETT: I wouldn't have any comment. What they ought to do is look at businesses that they understand, they'd be happy owning for years if there was never a quote on the stock. Just like they buy in privately into a business in their hometown, they ought to forget all about what somebody says is going to be hot next year or the year after, whatever. Because what's going to be hot, you may be paying twice as much for as something that's not going to be hot. You don't want to think in terms of what's going to be good next year, you want to think in terms of what's a good business to be in and then buy it at an attractive price. And then you can't lose.

GHARIB: Do you see more opportunities in the U.S. compared to overseas?

BUFFETT: Well, I am more familiar with the U.S. We have such a big market. I see lots of opportunities here and I see lots of opportunities around the world.

GHARIB: Let me ask you a little bit about investor confidence. Investor confidence was so shattered last year. What do you think it's going to take to restore confidence?

BUFFETT: If people were dependent on the stock market going up to be confident, they're in the wrong business. They ought to be confident because they look at a business and they think, I got my money's worth. They ought to be confident if they buy a farm, not on whether they get a quote the next day on the farm, but they ought to look at what the farm produces, how many bushels an acre do they get out of their corn or soybeans and what prices do they bring. So they ought to look to the business as to whether to be confident compared to the price that they paid and they ought to forget about what anybody is saying, including me on television, or what they're reading in the paper. That's got nothing to do with whether they made a good decision or not. What's got to do with whether they made a good decision is what kind of business they bought and what they paid for it.

GHARIB: People are reeling from this whole Bernie Madoff scandal. What would you say to people who have lost trust in the financial system?

BUFFETT: They shouldn't have lost, you don't need to lose trust in the American system. If you decide to buy a farm and you pay the right price for it, you don't need to lose faith in American agriculture, you know, because the prices of farms go down.

GHARIB: But you know what I'm saying. This was on top of everything else. People lost money last year in companies that they thought were rock solid. As I said, the unthinkable happened, and then on top of it, this whole Bernie Madoff scandal. It has undermined people's sense of well-being about our system. So what do you say to people who have lost trust?

BUFFETT: Well, they may be better off not being in equities. If they're really depending on somebody else and they don't know anything about the somebody else, they've got a problem. They shouldn't do that. I mean there are going to be crooks out there and this guy was a crook on a scale that we've never seen before. But you ought to know who you're dealing with. But if you're going to buy a stock in some business that's been around for a 100 years and will be around for 100 more years and it's not a leveraged company and it sells some important product and it's got a strong competitive position and you buy it at a reasonable multiple of earnings, you don't have to worry about crooks, you're going to do fine.

GHARIB: Is there any take away lessons from the Bernie Madoff story?

BUFFETT: Well, he was a special case. I mean here is a guy who had a good reputation for 30 years or something, and the trust of a lot of people around him. So it's very easy to draw assurances from the fact that if fifty other people that are prominent and intelligent trust the guy, that maybe you should trust him too. But I wouldn't put my trust in a single individual like that. I would put my trust in a very good business. I would want a business that was so good that if a so-so guy was running it, it would still certainly do well and there are plenty of businesses that are like that.

GHARIB: So, are you saying that investing has gotten so complicated that investors should stick to what they know? Is that the take-away lesson?

BUFFETT: You should always stick to what you know. I say the 'know-nothing investor' and there's nothing wrong with being a 'know-nothing investor.' I mean, I spend 60 hours a week thinking about investments, and most people have got jobs and other things to do. They can buy index funds. And they're not going to do better than an index fund if they go around and trust some guy that's promising them very high returns. If you buy a cross section of American business and you don't buy it during a period when everybody is all enthused about stock, you're going to do fine over 10 or 20 years. If you buy something with the idea that

you're going to do fine over 10 months, you may or may not. I do not know what stock is going to be up 10 months from now, and I never will.

GHARIB: What about Berkshire Hathaway stock? Were you surprised that it took such a hit last year, given that Berkshire shareholders are such buy and hold investors?

BUFFETT: Well, most of them are. But in the end, our price is figured relative to everything else. So the whole stock market goes down 50 percent, we ought to go down a lot because you can buy other things cheaper. I've had three times in my lifetime, since I took over Berkshire, when Berkshire stock's gone down 50 percent. In 1974, it went from \$90 to \$40. Did I feel badly? No, I loved it. I bought more stock. So, I don't judge how Berkshire is doing by its market price, I judge it by how our businesses are doing.

GHARIB: Is there a price at which you would buy back shares of Berkshire? \$85,000? \$80,000?

BUFFETT: (Laughs.) I wouldn't name a number. If I ever name a number, I'll name it publicly. I mean, if we ever get to the point where we're contemplating doing it, I would make a public announcement.

GHARIB: But would you ever be interested, are you in favor of buying back shares?

BUFFETT: I think if your stock is undervalued, significantly undervalued, that a management should look at that as an alternative to every other activity. That used to be the way people bought back stocks, but in recent years, companies have bought back stocks at high prices. They've done it because they like supporting the stock. They don't ever say it.

GHARIB: In your case, with Berkshire. I mean, it's down a lot. It was up to 147-thousand last year. Would you ever be opposed to buying back stock?

BUFFETT: I'm not opposed to buying back stock.

GHARIB: OK, I'm going to move on. Everyone wants to know your plans. What you're going to do with all of Berkshire Hathaway's cash, some 30 billion dollars? Is this now the right time to do a big acquisition?

BUFFETT: Well, we've spent a lot of money in the last four months. We spent five billion on Goldman Sachs, three billion on GE, 6.6 billion on Wrigley, we've got three billion committed on Dow. We've spent a lot of money. We've got money left, but I love spending money. Cash makes me very unhappy. I like to always have enough and never way more than enough, but I always want to have enough. So we would never go below \$10 billion of cash at Berkshire. We're in the insurance business - we got a lot of things. We're never going to depend on the kindness of strangers. But anything excess in that, I love the idea of buying things and the cheaper they get, the better I like it.

GHARIB: You've been talking about doing a big acquisition for a while now. What are you waiting for?

BUFFETT: Well, we've spent 20 billion dollars. (Laughs.) That might not be ..

GHARIB: I mean in terms of a company, buying ...

BUFFETT: Well, we'll wait for the right deal. We had a deal to buy Constellation for roughly five billion and then events with the French coming in meant that we didn't do it. But I was delighted to commit for that five billion dollars for Constellation Energy. And it could happen tomorrow. That one happened on a Tuesday afternoon. I mean, it happened like that. Constellation was in big trouble and we flew back that day, the people at (Berkshire Hathaway subsidiary) MidAmerican, met on Tuesday and made them an offer that night.

GHARIB: It seems that you're pretty optimistic about the long-term future of the American economy and stock market, but a little pessimistic about the short term. Is that a fair assessment of where your head is right now?

BUFFETT: I am unquestionably optimistic about the long-term. I'm more than a little pessimistic about the short-term, but that doesn't mean I am pessimistic about the stock market. We bought stocks today. If you tell me the economy is going to be terrible for 12 months, pick a number, and then if I find something that is attractive today, I am going to buy it today. I am not going to wait and hope that it sells cheaper six months from now. Because who knows when stocks will hit a low or a high? Nobody knows that. All you know is whether you're getting enough for your money or not.

GHARIB: All right, I want to move on to our 30th anniversary and wrap-up some of your reflections and thoughts on that. As you know, it's the 30th anniversary of Nightly Business Report. As you look back on the past three decades, what would you say is the most important lesson that you've learned about investing?

BUFFETT: Well, I've learned my lessons before that. I read a book, what is it, almost 60 years ago, roughly, called The Intelligent Investor, and I really learned all I needed to know about investing from that book, and particularly chapters 8 and 20. So I haven't changed anything since. I see different ..

GHARIB: Graham and Dodd?

BUFFETT: Well, that was Ben Graham's book The Intelligent Investor. Graham and Dodd goes back even before that, which was important, very important. But, you know, you don't change your philosophy, assuming you think have a sound one. And I picked up, I didn't figure it out myself, I learned it from Ben Graham. But I got a framework for investing which I put in place back in 1950, roughly, and that framework is the framework I use now. I see different ways to apply it from time to time, but that is the framework.

GHARIB: Can you describe what it is? I mean, what is your most important investment lesson?

BUFFETT: The most important investment lesson is to look at a stock as a piece of a business, not as some little thing that jiggles up and down, or that people recommend, or people talk about earnings being up next quarter, something like that. But to look at it as a business and evaluate it as a business. If you don't know enough to evaluate it as a business, you don't know enough to buy it. And if you do know enough to evaluate it as a business and it's selling cheap, you buy it and you don't worry about what it does next week, next month, or next year.

GHARIB: So if we asked for your investment advice back in 1979, back when Nightly Business Report first got started, would it be any different than what you would say today?

BUFFETT: Not at all. If you'd ask the same questions, you'd have gotten the same answers.

GHARIB: Thank you so much Mr. Buffett. Thank you so much, always a pleasure talking to you.

BUFFETT: Thank you, been a real pleasure.
