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What is one of the most important lessons you learned when working for Bill Ruane and Warren Buffett?

I was with Mr. Ruane for almost a decade and I started reading about Mr. Buffett when I was 13. I would say two things. On the investment side really focus on understanding what you're investing in. A famous quote from Mr. Buffett, and something Bill Ruane would also quote is: rule number one - don't lose money; rule number two - never forget rule number one. So, focus on the downside whenever you're looking at an investment. Try to get an understanding of what can go wrong rather than focusing on what can go right. The second thing is that they are both terrific people. I've often told this story, but when I interviewed with Bill for the first time our son had needed an open-heart surgery. Bill hadn't even hired me yet and wanted to pay for the surgery. So, he was just a really special guy. I would also say the same about Mr. Buffett. On the investing side, really know what you're buying. Be patient and be disciplined. Focus on the downside.

I sent a few quotes from Buffet that have had an impact on my life. Some of my favorites are the following. “Measure your success by how many of the people that you want to have love you actually do love you, the trouble with love is that you can't buy it.” “It takes 20 years to build a reputation and five minutes to ruin it.” If you think about that you'll do things differently. “Someone’s sitting in the shade today because someone planted a tree a long time ago.” “Chains of habit are too light to be felt until they're too heavy to be broken.”

> “Focus on the downside whenever you're looking at an investment. Try to get an understanding of what can go wrong rather than focusing on what can go right”

One of my favourite lessons about investing was that money could make me independent. I could then do what I wanted with my life, and the biggest thing I wanted was to work for myself. I didn't want other people directing me and the idea of doing what I wanted to do every day was important to me. When I was 30, Bill and Rick Cunniff told me about the benefits of money. They said being financially successful comes with five things. First, it gives you freedom, which they really valued. Second, it allows you to take care of your family. Third, you can help a lot of other people. Fourth, in our business it means that you are doing a good job for your clients. And fifth thing was kind of interesting. Being young at the time, they told me, “Paul, when you're my age (they're both in their 70s) and you have the financial resources, you never have to deal with anyone who makes your stomach churn.” And I really understand it now.

At your last talk at Ivey, you suggested that investors should focus on what will not change in the next few years, as opposed to what will change. What are some relevant trends today that you believe will persist?

I think Bezos really captured this. One of the things Mr. Buffett, Bill and Rick could really do well is simplifying everything. When you look at Bezos and Amazon, what they do is really hard. I mean where I live in New York City I can order things and I can actually get them the same day. Just think about logistically how incredible that is. And they get it right. But you look at Amazon, the implementation part is the hard part. Nonetheless, it's really simple. Cheap. low cost, rapid delivery and huge assortment. Those things are never going to change. So those three things I think in most cases are universal. Years ago, I would've said ‘consumer tastes’ is one of them, but they're really changing. So, there's not a lot of stuff five or 10 years from now that you can say to is not going to change. Things are really changing today. But there's some that won't.

Lountzis Asset Management uses field-based research to supplement and enhance the firm’s understanding of a company. You

have mentioned that this is especially important as there are many characteristics and qualities that cannot be measured quantitatively. In a typical investment, what is the proportion of time spent on primary field-based research at the firm and how important is this edge?

At the end of the day, everybody can sit in an office and do the financial analysis. What varies is, Mr. Buffett doing financial analysis and us doing it. He's better at it. But by the same token, as brilliant as Warren is, things change and you're better off going out into the field to see things instead of sitting in an office. You get a better perspective and a better feel. I think field-based research is more important than ever. We can do screens of all kinds of financial metrics for industries and companies. But, so can other people. Even after you do all those screens, the process tells you about the past and you're investing in the future. The future is different today than what the past may have been. Businesses and business models are changing – it's frightening. I mean take the newspaper business in 2005 which was a 50-billion-dollar business – 30-billion was run a press advertising, 20-billion was classified. Now, it's a 10-billion-dollar business in the US. So, at the end of the day, I think the qualitative characteristics matter more than ever. And the only way to get them is to go out into the field and talk to smart people.

It's often believed that it is more difficult to gain significant informational edge in large caps due to its publicity, compared to obscure small caps. What areas do you focus on to have the informational edge on some of the large caps you have invested?

That's a really good question. You can have an informational edge, an analytical edge, a patients or client capital edge, and so on. One of the reasons Mr. Buffett is so successful is, he is about a million times smarter than all of us, and he has permanent capital. He has no clients. If you're running a hedge fund or a mutual fund today, try having 20 percent cash. Where do you think all the money is going to go? It's going to leave. Mr. Buffett doesn't have to worry about that. That's what we're trying to do - get quiet and patient long-term capital.

But there are a couple of things that I remember vividly about large caps. I remember back in the early 90s when Bill Clinton put Hillary in charge of health care to do some work. They were really attacking the health care companies and all the big caps such as JNJ and Merck got killed. We went in then and bought a lot of JNJ. We made many times our money. Another one is United Health Care. Back in January of 2013, it was fifty-two dollars because of Obamacare. You could have bought United for fifty-two dollars and it's at 250 dollars now. So, these were huge gaps, but they do happen, and the thesis was correct. It's harder because so many people follow large-caps, and so it's easier with small and mid-caps.

What industries would you say exist today but might not be as relevant in the future?

Traditional retailing, newspapers and cable companies offering the video product. In the US they've talked about the Triple Play – video, broadband, and phone. Nobody cares about the phone. In New York City, I'm making this up (but I'm probably close), 40 to 50 percent don't even have a landline. We have one at home because we got it for free. But they throw it in and we don't even pay for it. Broadband is valuable, but we have Fios, which is fiber all the way into the home. Contrastingly, cable is fiber to the node and then they run coax into the home. We have Fios, but anywhere in the United States where there is no Fios, Broadband is a monopoly. So, there's no way the government is going to let them charge $400 a month for broadband. Broadband is their most powerful weapon now, but the video product is their biggest revenue generated and least profitable.

Let's say an average bill is $180. Broadband might be $40, and phones are essentially free. So, we know the majority is with the cable video product - that's at enormous risk. None of our kids have cable anymore. They just have the broadband. They use Netflix.

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You can get YouTube TV, Hulu, Amazon Prime, and so on. With Youtube TV, you can get all the ESPNs, all the major networks, and a bunch of other stuffs for 40 dollars a month. And what's even better, you can watch what you want, when you want, on the device you want. So, I think cable is a great example, and I think cable video and programmers are in a lot of trouble.

There are a lot of traditional businesses that are in trouble. A lot of it is because of technology. In banking there used to be a hundred thousand bank branches, now there are only 85. My kids never go to the bank and now that I have all the apps on my phone, I never go to the bank. And what that's doing is almost like the wealth inequality issue. JP Morgan will spend more than $11 billion on tech, Wells will spend $8-9 billion. There used to be 15,000-16,000 thousand banks in America, and now we're down to 6,700. The community banks used to account for 40% of loans, now they are 20%. They can't compete, because the little banks don't have the technology budgets.

> "There are a lot of traditional businesses that are in trouble. A lot of it is because of technology"

You mentioned that you avoid business model complexity. How do you balance that against other investor perspectives that believe complexity and lack of investor understanding can lead to potential value opportunities?

For me, simplicity makes it easier. There are a lot of people that love complexity, such as those who do bankruptcies. I think more complexity makes you more prone to making mistakes. The really good ideas, they jump out at you. That's my experience. So, I don't like complexity. There are people that love bankruptcies and restructurings, but I don't like that stuff. I don't want to be sitting around reading 80 pages worth of legal documents and hiring law firms to explain them to me. But there are a lot of people that make a lot of money doing that. I have no interest. That's just not what I want to do.

You mentioned that you did not invest in China or India in 2017. Could you expand on your rationale behind not investing in those developing countries?

I can't add any value there. I don't have any feet on the ground and don't know how I could add value there. So that's why I don't invest there. I invest primarily in the US, and we'll look at Mexico a little bit. We'll also look at Canada but the problem from our perspective is banking and energy. Just to give an example of how risk averse I am, I've looked at energy for 30 years but never invested. And the reason is when you start doing filters on energy, you want clean balance sheets, low finding costs, reserves in safe areas, and good capital allocators. When you do all those filters you eliminate almost every company. And when you value the few that are left, and there are a few, it depends on the price of the commodity. You can't tell me the price of natural gas or oil in three years. For example, Cabot is a phenomenal gas company in the Marcellus, not far from where I grew up in Pennsylvania. They're phenomenal - great balance sheet, low finding costs, great reserves, and great management - everything I like. Problem is, in three years, natural gas could be two dollars or 50 cents like it is now. Their finding cost is below a dollar but you're not going to make a lot of money.

Your analysis of Zoetis stated that the development of animal drugs takes half the time that of human drugs. Growth in the industry due to favorable tailwinds and attractive profitability are likely to encourage more entrants. How is Zoetis positioned to maintain its profitability?

The beauty of Zoetis is it was a part of Pfizer. Animal health is a great business - I don't know how it is in Canada but there are more

single lonely people in the States today than ever before. It's really sad. And so, their pets are like their children. We had a golden retriever and he suffered from hemolytic anemia. My wife would drive from Redding Pennsylvania to Lancaster, 40 minutes driving every couple of weeks, to meet a specialist. He was on 21 pills for two years or longer. We kept him alive for two years. I have no idea what we paid because my wife took care of all that, but we paid a lot of money. The point I'm making is, a pet is like a family member. That's why I like the pet industry.

Zoetis was within Pfizer and they had 18 percent margins when a lot of their competitors were at 25 and 26 percent. So I figured if they spun them out, they could be a lot more profitable. And then we got really lucky. We paid $29-30 and now it’s almost at $100.

In 2006 and 2007 you held 50% of your clients’ $3 M portfolio in cash because you felt uncomfortable with the investment climate. With the Buffett Indicator (Fed liability or Wilshire 5000 divided by GDP) reaching closer to the peak level of 2000, how do you view the investment climate now compared with that of 06/07?

The beauty today is, we found these fixed income securities that are fixed adjustable preferred. We don't have our clients’ money in treasuries or in cash. We have them in fixed adjustable preferred earning 4 to 9 percent. That's where our cash is now, and many of them are short duration. So, we’re taking a little bit of risk but we're not going to get hurt because they're short duration and we're getting multiples of what we would get in a treasury fund.

My point is, it's almost like 2007 for us. We're not finding lots of equities to buy now but we're not hamstrung like we were in 2006/07 getting 1 percent in treasury. And frankly, we think the stock market is not going to give you the 17 to 18 percent long-term average it gave in the past in the US market. I think it's going to be closer to 5 to 8, and we're already getting that in these fixed adjustable without taking the equity risk. That's how I look at it.

How do changes in the macro-economic environment affect your decision making, from stock picking to portfolio management?

We don't spend a lot of time on that but we do follow it. We own Lowe’s, the retailer, but we have sold 90 percent of it. We also used to own Bed Bath and Beyond. If you own those, or if you're in banking, you've got to keep tabs on a lot of the macro stuff. What are interest rates doing – if rates would go to 15 percent there's no homebuilding. What does that mean for Lowe's? What does that mean for banks, and what is it doing to their net interest margin? So, we look at the macro criteria only to the extent we think it impacts our whole industries and companies, but we don't ever make macro bets. I will never say, “the 10-year treasuries are at 265 bps now, I think in two years it is going to be 4 percent.” However, macro environment is very important. At least understand it and what implications it has. We'll do different scenario analysis just for our own perspective with respect to what it means for our companies. A good example is Wells Fargo. The net interest margin used to be over 5 percent. It's under 3 percent now but it only impacts half of their business because 50 percent of their business is fee based, not loans.

If you see that a certain sector faces a number of tailwinds, is that something you factor into your investment process? Do you have an inclination to look for companies within sectors that you think will perform well due to macroeconomic factors?

We typically don’t go sector by sector, but we do look at industries. We like to know all the industry data before we even dig into the company such as how big is the industry, what’s the runway, and all that stuff. But we don’t make pure sector bets like say “I like healthcare now or I like the internet now”. It has to be far deeper than that for us. But we might do a little bit of that on the “what to avoid” side. It’s unlikely for us to invest in the

steel or mining industry; they are too capital intensive and declining industries. Coal is 27 percent of electricity capacity in the US today, and 10 years ago it was 55 percent. So, there are industries where we will say no. But for example, if we do start looking at healthcare, we will look at different areas within it such as devices, diagnostics, pharmaceutical, animal health, human health and managed care. There are different areas we might look at but we never say "we're going to look at the healthcare sector and this is where we are going". We combine the industry analysis, but we always want to come bottom up. United Health, for example, is the best in the business. While macro and sector trends matter and important, they don't drive the decision making. Allocating assets to the unicorns is scary; there's something like 308 of them globally. I would guess that in 3 to 5 years, 50 to 70 percent of them will not be around, they will be cheaper, or they will be acquired. I have talked to some venture capital and private equity friends of mine, and no one has ever seen this amount of money out there. It's unbelievable, there's money everywhere. These companies don't have to go public anymore.

Would you say the current state of the industry resembles the bubble of 2000-2001?

I would say there are some similarities, but I would also say that a lot of the businesses in the internet and technology space are really "businesses" today. Whereas back in the bubble, they were not. However, there are still a lot that are not today either. The IPO market in the States has really slowed down over the years, but there are a number of companies that are coming public with no earnings. If you look at the Russell 2000 and other small cap indexes, I think 30 to 50 per cent of them don't make any money. So that is scary.

When do you avoid specific sectors?

If I look out a couple of years for a specific industry and don't have a reasonable idea of where that industry will be, that means I can't project the cash flows. If I can't project the cash flows, that means I can't value it. If I can't value it, I can't buy it.

Would you say that the minimum amount of time that you need to be able to project cash flows for is 3-5 years?

Yes, I think so, because that is our typical holding period, and if I can't look out 5 years, then I really can't do anything. I think a great example is the cable video business. I have no idea if that will survive, simply because everybody is streaming everything now. Reed Hastings of Netflix is a genius. I think his story is that he got sick of paying the late fees, so he started sending people videos and that's how he started Netflix. So, people used to get content in their mail, and then he took that and turned it into a streaming business. The content people like Time Warner and Disney started selling him their content, and the reason is that it was immediate profit, because they had sunk cost. They basically enabled him to use their product to build up a customer base that led to him having enough money to create his own content which competes with theirs. So, he is definitely a genius. I never bought Netflix, but I have friends who did and made 50 times their money, then lost 20 times, and so on and so forth. I don't own it because when I look out 3-5 years, I have no idea where Netflix is going to be. In the US, they got rid of net neutrality. So technically, Comcast could call Netflix up and say "Reed, in Philadelphia you are 60 percent of our bandwidth on Saturday nights, we're going to double the price we charge you". There's nothing Reed could do. He could sue them, which he would, I'm guessing, but he can not do anything else. He has no control over his distribution. 6 companies in America control 80 percent of the distribution – Comcast, Time Warner and AT&T to name a few. It's simply just a handful. Secondly, you are basically making the bet that all the content he is currently buying, is going to keep being sold to him, which it won't. Disney has already stopped selling to him. He has some that might sell to him for a couple of years, but at some point they probably won't sell him any more product either. The other bet is that he and his team are going to keep coming up with phenomenal content that people would be willing to pay for. I would never make the bet on the movies and hits

business. I might just be justifying my stupidity for not buying Netflix, because you would have made a lot of money, but when I look out 3-5 years, I have no idea where it will be, so I wont touch it.

With the emergence of passive management and technology-driven investing, how do you see the future of investment management space as a whole? And what do you think active managers need to do to survive/adapt to this trend? Do you expect passive management to gain more market share in the asset management space? What is the future of active management?

I think there are a couple things that have happened. In the States, the wealth management business is not about investing, it is about allocating capital. So, if you walk into a wealth management shop in New York, you'll notice that they offer a lot of different products, like credit. But at the end of the day, many of them are not investors. They might take $5 million from you and send it all over the place, so you end up paying double fees in a lot of situations. You're first paying them, and then you're paying where they send the fees. We don't do that. We charge 1% and we run the money, and that's almost a dinosaur today. A part of it is that the business is all about gathering assets, as opposed to investing the money. Take that and combine it with the fact that the fee structures are higher, and then combine that with the fact that we have been in a bull market for 10 years. This leads to everyone thinking that they can do it themselves, so everyone moves to passive investing like ETFs and index funds. I think that is a bubble. And I am not saying that to defend active management. I think a lot of active management is closeted indexing. For example, we saw an individual's portfolio who was in their 70s; 50 percent of it was stock and 50 percent was fixed income, which is a reasonable allocation for that age. The 50 percent in stock was in 233 stocks, that they didn't know very much about, and the individual was paying 1% for this. They could have gotten an index fund and paid 95% less. The other 50% was in 50 bond funds, and they were paying 70-100 bps for those, plus paying the money manager 1 percent. So you end up paying 1.7 to 2.0 percent in total. If that's the case, why wouldn't you just go passive? The point I am making is if you combine the market booming and the nature of the traditional business, you have the perfect excuse to go to passive. But I also think, the next day liquidity offered by passive, especially by ETFs, will lead to them running into a lot of problems. Let's say you are in an Oil ETF, and everyone wants to get out of it. Good luck. I think passive has a place, it can be very valuable for people, and I think passive will gain more market share; but I think when the market hits, active will do better. I think the future of active management is actually healthier now because you have to add more value. It is a tougher game now, which is fine. You're just going to have to earn your keep more now. In mutual funds and hedge funds, managers are really hamstrung. The reason they are hamstrung is that they can't be patient. Let's say you go to an endowment, and you're a small cap value mutual fund. They pigeonhole you. We run separate accounts, and as a result we're not pigeon holed and can do whatever we want. We're not market cap constrained. We're not value/growth constrained. We're not geography constrained. For a mutual fund or hedge fund, the strategy you create to market your product, limits you. So, let's go back to the small cap value fund. The endowment says

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to them "you're value, so we better not see any growth names in there because we already have somebody else doing that. We're going to give you $100-150 million and we want you to invest it all domestically within the next 2 weeks". How do you expect this fund to beat the market and indexes? It

is very hard. We haven't bought a new stock in like a year. You could never get away with that at a hedge fund or mutual fund. Ever. We have clients that allow us to do that because our focus is preserving capital. There are so many smart people out there, and good ideas just don't come around that often. So why should you assume that you will always be able to find these great ideas. Now, if it's March of 2009 or the Fall of 2008 or August, October and September of 2011, those are great times, but they don't come around very often.

You talked about running separate accounts, could you expand on that a bit more?

I decided against running a mutual fund or hedge fund. Mutual funds are primarily distribution driven, and there's too many of them. Hedge funds: I don't like the fee structure; I don't hedge or use margin. Furthermore, in a hedge fund, often, you get a small portion of a wealthy person's money (I am just making this up), which leads to there being no relationship there. The moment you don't perform, what do you think they do? They take the money. So, money comes, and money goes; I don't want to be a part of that business.

So, what we decided to do 17 years ago, was to build a separate account business. All our clients are at Schwab, which is the custodian. So, for each account, we sit down with the client and really get to know them. What are their needs, goals and objectives? What do they do for a living? We manage a tremendous amount of their money, and in a lot of cases we manage all of their money.

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We decided to do fixed income and equities, even though the past 2 firms I worked for only did equities. We could get a bigger piece and have greater flexibility, allowing us to do better for the client. After sitting down with the client, we decide on an allocation. For example, something like 60% stocks and 40% fixed income. Then we start filling it. We don't have model portfolios, so we do this for each and every one of our clients. So, we start from scratch with every client, and we are not constrained in any way. The only constraints we have is our own constraints, such as we don't understand it. An example of a constraint we have set for ourselves is that we primarily invest in the US, while still looking at Canada, Mexico, Japan, Korea and Western Europe. We don't look anywhere else because I don't feel comfortable with those areas.

What do you think are the major differences between public and private market investing?

I think what's happening today, in the States at least, is that public market and private market values are different. The first being the liquidity issue. Now, private equity is dealing with this with secondaries. What they are doing is that there are lot of LPs in private equity funds or in deals that are selling their shares in the secondary market. Second thing that they are doing is that private equity firms are selling to each other, which are called secondary buyouts. That is amongst the highest levels ever today. The reason is that they need liquidity and they need to show performance. They don't want to own it forever and they can't find a strategic buyer or anybody else to buy it, so they just sell it amongst themselves. It's kind of like musical chairs. One of the things that is unfair when you compare public and private is that in private equity there is no market clearing mechanism. So, the valuations they use, there is no market for them; they're private. So that's one issue, and as a result they won't show the volatility that public markets will show.

I think right now you can make the case that there are a lot of private companies that are selling at higher multiples than public companies. There're other times when it's different. What happens a lot of times is that

when public markets are doing well, private equity sells into them by taking companies public. And then the opposite happens: when public markets are cheap, private equity firms with all their capital, step in and create a floor for these companies and buy them. There is about half as many companies in the US today than there were 20 years ago. There are under 4000 now, whereas there used to be over 8000. We pay a lot of attention to private markets and the valuations for private companies. Now it's even more fun because a lot of large private equity firms are now public such as Carlyle, Blackstone and Oaktree. So I get the opportunity to read all their stuff, and monitor their flows. It is unbelievable how much money they are raising. In 1980, there were 24 private equity firms in the States and today, there are 8,300 firms. In America, the private and public markets are converging, and the firms that allocate capital to them are converging. So you see that Brookfield just bought 62% of Oaktree. Today, the firms that started off as traditional private equity firms and were focused on LBOs, now they do credit, activist and public to name a few. Basically, they do everything, its ridiculous. Blackrock, which manages $6-7 trillion, is public and they do things like mutual funds and ETFs. They are now buying stakes in private equity firms. So it is all converging, with these behemoths getting bigger and bigger.

Recently, PwC predicted that over 80% of the public asset managers would consolidate into the top 20% over the next 10 years. Do you think a similar phenomenon may take place in the private asset management space? For example, might you foresee small private equity and venture capital firms being acquired by the behemoths such as, for example, Blackstone?

That's a great question, and I think that is happening more and more. What's driving it is, say you're a pension fund or an endowment and you're making these decisions, a lot of them are political. It's so much easier to give money to Pimco, or Fidelity in the public space, or Blackstone in the private space than to, say, "Yaasir's Fund." It's just easier, you're just taking less risk. Let's say you're buying computers for your corporation. Are you going to buy IBM's or Dell's or Paul's? The big are probably going to get bigger.

What ideas did you come across previously that seemed like it had all the hallmarks of a good investment at the time, but for some reason they didn't pan out? Hindsight is 20:20, so what do you think you might have missed, and is it something that is common for others to miss as well?

The majority of my mistakes have been mistakes of omission, not commission. There are so many stocks that I have missed.

O'Reilly is an auto parts retailer. O'Reilly has two businesses. The first business is "do it for me": they sell parts to dealerships and anywhere that fixes a car. They can get the part there in 20 minutes to half an hour. The second one is "do it yourself": they have retail stores. I was at the Gabelli Automotive Aftermarket Conference in the mid-2000s. I met Greg Henslee and the team, and I thought they were a great company. Midwestern, humble, and I loved the "do it for me" part of their business.

Imagine I'm at an Acura or Mercedes dealership in Pennsylvania and I'm fixing a car and I need this part. I go to my parts department and say, "We need this." The parts department has O'Reilly on speed dial, the salesman has gone to them for 30 years, and they get O'Reilly's distribution centre on the phone and they say, "We need this product." O'Reilly says they'll be there in 30 minutes. How is another company going to displace them? How are they going to have the inventory, the distribution centres, the sales representatives? Good luck! I love that business.

The "do it yourself" business I hate. And I've missed it twice now. In '07, the stock was 30-35. Like an idiot, I didn't do anything. It's 400 now.

Here's another example of double stupidity. In July 2016 or 2017, the stock got nailed. It

went from 350 to 169. I put it on my buy list and for whatever reason I didn't buy it. It's 400 now. Now I couldn't have made 10-12 times my money like I could have if I had bought it 8-10 years ago, but I could've easily doubled my money. I'm not justifying my stupidity, but the reason I didn't buy it was that they bought CSK in '08. CSK was more like the second part of their business than the first, so it skewed the proportion of their business towards the retail side. It became about 70% stores and 30% "do it for me." But now they're getting close to 50:50 again. I'm looking out three to five years. We have an Acura MDX in New York City, and we hardly ever drive it, but it's there for convenience. All the cars today that I am familiar with, I don't think anyone is going to go fix their own cars anymore because it's all computers. How are you going to fix anything? You're going to take it somewhere. The old days of someone going in and doing this and that are over; you're going to take your car to the dealer or you're going to take it to a mechanic. I think their auto store business is in trouble. I could be five years early, but that's my thinking. I also could not be right. I could give you a hundred examples of companies where I have made an error of omission. Now, I don't worry about things like Netflix going up fifty or a hundred times; I never understood that. Even Amazon, as brilliant as Bezos is, I know of very few people who could've foreseen the company's share price success. I missed Google. Apple is another one. In 2006, they came out with the iPhone. My four kids and my wife, every one of us has an iPhone, except Zachary. He hates Apple, he's a technical guy. He hates closed systems, he's a really smart kid. We had iPhones all over the house. We had iPods all over the house. And we had iPads all over the house. We had the whole Apple ecosystem, and I never bought Apple. I could have bought in 2008 and made eight times my money when it broke a trillion. I could have bought it in 2011 when Jobs died and made four times my money. But, it's still down 26-30% from that trillion. And I think they're in a lot of trouble. Trouble, not that they're not viable. Trouble, in that I don't know how they will grow. 62% of their business is the iPhone.

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A great example is that I have the iPhone XS max that I paid a fortune for it just about two months ago. But it's an incredible business tool. I get 1,000 emails a day and I have all the publications like the Wall Street Journal and the New York Times on here. I've got 150 things on here. I paid 1,500 bucks for that. Our second son came home for Christmas and wanted to get a new iPhone. He had the 5S, so we said, "Why don't you get the XR?" which was $700. The only difference between the XS and the XS max is the size. He went to the store with my wife and told the salesman what he needed the phone for. The salesman told him he didn't need the XR, so he bought the 8. He paid $180. The problem they're going to have is that most of the world can't afford their products. If you look at market share by volume, 85% of the phones in the world are Android-based. By profit, Apple might have 12-14% of the units, but they have 100% of the profit. They're the ones making all the money. The point I'm making is, again, I missed it. In defence of my stupidity, the world is littered with consumer electronics companies. You guys don't remember the Sony Walkman. I could give you a hundred examples. I'm not implying that's going to happen to Apple. They've got three billion in cash, they're a great company, they're coming out with video. They need a whole new paradigm to grow that revenue engine and I don't know how they'll do it. They also have the same problem Buffett has; that's the anchor of size. If you have a trillion-market cap, leaning to be two trillion, that's ten percent of America's gross domestic profit. It's the same with Mr. Buffett whom I love. He's so big now, if he buys something for two billion and it's worth four billion, it

doesn't mean anything because his market cap is so big. He's approaching $450 billion. The equity portfolio itself is $172 billion. They probably have $100 billion plus in cash, that's a lot. He has to buy a $30 billion company, and have it double for it to make a difference.

Different businesses grow in different ways. How do you view and value companies and their respective strategies?

I'm very biased here. With rare exception, and I'll give you a couple of examples, we really really despise acquisitions. There's the example of Brown and Brown. Hyatt Brown built it and Powell Brown, his son, is running it. It's an insurance brokerage firm. They're based in Florida and a lot of their business is in Florida. Insurance brokerages in the States will come and see you and say, "If you ever want to sell your business, come to us." They'll do that every year for twenty years. Then, when you look to retire, you'll sell to them. They'll buy it and give you backend equity and earnouts and all the rest. They used to do 10, 20, 30, 40, 50 small acquisitions a year. Now, they're big and doing big acquisitions. They're an exception that we own. They were great at doing acquisitions, but little ones. That was okay with me. They bought them and then just left them alone. That's an example of a company doing mini rollouts all the time that we own now and we like them. But, in general, and there are academic studies to support this, 70-90% of acquisitions over time don't pan out financially for the acquiring company. So, we hate them. Wells is a great example of that. Trying to merge two companies with different cultures is very very hard. The bigger they are, the tougher it is.

"In general, and there are academic studies to support this, 70-90% of acquisitions over time don't pan out financially for the acquiring company"

An opposite of Brown and Brown is Progressive. Progressive, before buying a homeowner's company, was virtually all internally grown. I love that. The reason companies and people don't like that is because it takes too long. Progressive was started in 1937 by Peter Lewis' father and his Case Western Reserve law buddy. They were both lawyers. Peter joined in the late '50s to early '60s. 1977, 40 years after his dad founded the firm with his partner, was the first time they hired MBAs. They hired 3 MBAs and they were doing $45-50 million in premium. He said to the three MBAs in 1977, "By 1990, I want to be doing a billion." They broke it by two years. This year, they'll do close to $30 billion. But that's 80 years. People don't want to take 80 years. When you're Peter Lewis and his father, and you founded the company, you have a totally different mindset than someone like you or I might have if we were taking it over. It's a different mindset. When professional managers take over, they focus on *their* timeframe. If you were to ask me what's the perfect set-up? A founder who is creative, visionary, a true leader, passionate, able to communicate that vision and build great teams, and has sound judgement. That's what you want. That's Bezos, that's Bill Gates, that's Reid Hastings, Howard Schutlz, Phil Knight. They don't come around often. Now, think about it: every one of the people I mentioned, think about how they look at their business versus you becoming CEO of one of them. It's not the same, it's just not. It's a child to them, it's their life. That's what you want, that's what we want. But they're hard to find.

So, many companies are run by professional managers who often have trouble thinking across long-term time horizons, especially when their compensation is tied to three-year stock performance or five-year goals. How do you think professional managers can manage this conflict?

That is an example where private and public are very different. A lot of managers are choosing to go private for that reason. At the end of the day, they're in a very tough spot. Let's say I work in a wealth management team for an investment firm. I just got a client for five million dollars and I can't find stocks

to buy. The pressure on me to buy stocks is enormous. My manager is going to say, “What are you doing? This client is going to leave. He’s paying you a one percent fee and you’re not investing his money.” Then you’re saying, “Well I can’t find anything to buy.” The point I’m making is that if I were looking for a money manager I’d look for five things. There are definitely more, I’m not all-knowing. The first is impeccable integrity.

Second, I would ask about the research process, which no one asks about. If someone were to ask me, “Paul, how did you come upon United Health?” I can go back thirty years. I met Paul McGuire in 1991. The third thing I would ask, and this is a little controversial and there are exceptions of a lot of great people out there that this does not apply to, in general, I would rarely recommend giving money to a firm that is not owned by the principals. Take our firm, for example: I own the firm. I don’t care what anybody says. I don’t have a vice-president or a CEO or a public company CEO saying to me, “Why are you doing this?” I make all the decisions with my team. I just do what I think is best for the client. When you’re in a public company, you can’t; you just have other issues to deal with. Fourth question I’d ask is “Where is your money?” I have my money in a partnership. If I buy something from my clients, I am buying the same thing for myself. If I screw up, I eat it. I don’t have a separate account anywhere, it’s all within my firm. We have a partnership that I’ve created that has almost all of my money in it.

The fifth question, everybody asks is, “What is your performance and what are your fees?” Mr. Buffett and Mr. Munger have talked about two big things that are really challenging and create problems. One of them is incentives. Incentives drive behaviour. The second thing is leverage. I hate leverage because leverage kills. When people borrow, whether it’s a business or a money manager, we have no accounts that will have margin. One guy was the president of a company and he had lots of stock that would come due every quarter. He would say, “Paul, if you want to spend a million or two or three, go ahead. Then when the money comes through I’ll just pay.” He’s the only account we have as a margin, but that’s not truly margin. It’s basically just short-term liquidity so if we find a really great investment opportunity we can buy it.

> “[Knight’s] vision was: in the long-run, the company needed to control its distribution. How many public CEOs would be able to do that, or would have the courage to do that, or would survive doing that? Could you imagine? “Sales are down 40% this year,” analysts would be going nuts! ”

If you’re in the public space, it really makes it hard. It doesn’t imply that anyone in those roles can’t balance those issues, it’s just harder. It’s much easier to be running a private company and own equity in the business and have everything aligned. It’s very hard to do that in the public space, because of short-termism. If you read Roger Lowenstein’s book about pension problems, he discusses that. He talks about GM. A lot of these public companies, if you’re the CEO and the union comes in and tells you that they want more health benefits, more pension benefits, you give them to them. Well, you’re gone in five years, you’re gone in ten years. When the issues really come up to roost, you’re gone. And that applies to our entire country in the United States. We

should have five- and ten- and fifteen-year goals. If you're trying to build a railroad, say from New York to Florida, everyone is going to sue you, "I don't want to move…" In China, there's no argument. But that's not what I'm getting at either. If you agree to a long-term plan like that, a new president who comes in shouldn't be able to change it. That's one of the things I love about business, and one of the things I love about founders. Most founders *need* a ten-, twenty-, thirty-, forty-year time horizon. Bezos says that if you extend your horizon from one or two years to five or seven, you have an incredible lead over almost everybody else. Think about someone starting a business such as Phil Knight. He started thinking about starting a business in the 1960s. You should read his book, Shoe Dog. Nike is another one I missed. He had a fifty-year time horizon, that makes a big difference. He's not doing stuff for now. Let me give you an example. In the mid 1980s, Reebok overtook Nike. The women's craze, their classic shoes. Nike had all these independent sales representatives that sold other products but not competing products. They worked out of their homes. Nike's product was really taking off. These sales reps were making millions of dollars and doing very little. They weren't loyal to the Nike brand, they were loyal to their own little business. He made the decision that he would bring in an in-house sales force. The company was then public, so they could now afford to do that. Every one of those independent sales reps around the country either had to become a Nike employee and give up their business or get fired. He hired a guy named Nick Kartalis to go around and give them the ultimatum. Nike's sales, I'm making this up, went from $800 million or a billion or so, down to $500 million. He gave up hundreds of millions in sales. A typical CEO would not have done that. His vision was: in the long-run, the company needed to control its distribution by having its own sales reps. How many public CEOs would be able to do that, or would have the courage to do that, or survive doing that? Could you imagine, "Sales are down 40% this year" analysts would be going nuts, but he didn't care.