

**WARREN BUFFETT****The Oracle of Everything**

Warren Buffett has been right about the stock market, rotten accounting, CEO greed, and corporate governance. The rest of us are just catching on.

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Warren Buffett

For decades the name Warren Buffett has conjured up the image of a golden-touch investor--a solid, straight-shooting, deep value-minded soul who (as dozens of biographies and investing primers will tell you) believes in buying "companies," not stocks. His effect on the stock market rivals that of Federal Reserve chairmen and U.S. Presidents; his investing style is studied and copied by legions of acolytes from Wall Street to small-town America; his missives in Berkshire Hathaway's annual reports are read (and cited) as if they were the Gospel itself.

So it is a little strange, to say the least, to see the man Warren Buffett up close in his PJs. It is a sumptuous California morning, and I am sitting with the 72-year-old Buffett in his spacious ground-floor suite at the Lodge at Pebble Beach. Outside, the October sun is brilliant. The view of Carmel Bay is glorious. The 18th green frames the scene to the right; a large cypress tree stands to the left. As for the Oracle of Omaha, well, he is kicked back, picking at a room-service omelet, lounging around in a white terry-cloth bathrobe and pastel-blue pajamas.

Fittingly, for such Left Coast perfection, we are talking about the tech bubble of the century just ended. "It was a mass hallucination," Buffett says, "by far the biggest in my lifetime." Scary stuff, yet Buffett looks hardly perturbed. There is no self-regret on his face. Maybe that's because he wasn't a party to any of that malarkey--the bubble or its popping.

Which brings us to another facet of Buffett. And that's the fact that he not only has been dead-on with the vast majority of his investments over time but has also--in his own calm, self-effacing, almost goofy way--been right about much else: right on his views about corporate governance, right about stock options and accounting reform, right about the demise of corporate ethics, uncannily right about the stock market.

Indeed, he has been right on those fronts for years. What has changed during the recent months of corporate scandal, a soggy economy, and a vicious bear market is that the rest of the world seems to be coming back around to the Buffett worldview. Take that a step further: More and more people seem to be expecting (or at least hoping) that he will step in and save them from their own past mistakes. Because he controls, through his company Berkshire Hathaway, one of the most liquid sources of capital on earth, Buffett has recently been able to step up and buy huge chunks of American businesses, especially in hard-hit sectors like telecom, utilities, and energy. He is doing what he has always done these many years: buying at the bottom of the market, not the top.

As simple as that feat may sound, no one has been able to match it. For us mere

mortals, that is reason enough to watch his every move. And that is also why FORTUNE has returned to this subject. When we asked for a little bit of Buffett's precious time, we got instead an extraordinary 48-hour peek into the Oracle's mind and a marathon conversation that spanned everything from nuclear bombs to junk bonds to Barry Bonds to Barry Switzer to Eliot Spitzer.

Right now, though, we are talking about a time many believed he was wrong. Hard to imagine, but it wasn't long ago that a good number of people on Wall Street and in Silicon Valley thought this fabled investor was irrelevant, washed up. Buffett's take on things seemed out of tune. The rules of the game had changed, and he just didn't get it. "Warren Buffett should say, 'I'm sorry,'" fumed Harry Newton, publisher of Technology Investor Magazine, in early 2000. "How did he miss the silicon, wireless, DSL, cable, and biotech revolutions?"

It is hardly necessary to point out that this was during the age of irrational exuberance, when the Nasdaq was flying and Berkshire's stock was flopping. Buffett's fixation on value (and values too), his focus on the long term, not the short term--that was old hat. What was wrong with the stock option culture, financial engineering, and "situational ethics" (to use one of Buffett's own phrases)? The stuff worked, didn't it?

"Did it ever bother you," I ask him, "that people said you were a has-been, that you were through?"

"Never," he says in his folksy, gravelly voice. "Nothing bothers me like that. You can't do well in investments unless you think independently. And the truth is, you're neither right nor wrong because people agree with you. You're right because your facts and your reasoning are right. In the end that's all that counts. And there wasn't any question about the facts or reasoning being correct."

My time with Buffett begins back in Omaha on a Sunday and continues on a NetJets Gulfstream out to Monterey, where his sister Bertie picks us up and drives us over to Pebble Beach. At Pebble he spends most of his time holed up in his room instead of out on the links with his usual biennial eightsome, due to a torn left rotator cuff. The injury is not a huge problem for Buffett. For one thing, it isn't that painful, and for another, he's not that crazy about golf. ("I've got the highest handicap of any member of Augusta," he brags.) The shoulder injury affords him more time to work--reading, writing, and phoning--which is what he loves anyway.

There is only one logical thing to do when you have the world's greatest financial mind cornered in his room with an injured wing. And that is to ask him about the stock market. The problem is, Buffett doesn't like to talk about stock prices per se--though he did so in a [November 1999 FORTUNE article](#), in which he strongly implied that the market was too high. (Historians might do well to observe the parallels between that article and the warning Bernard Baruch famously gave in the 1920s.) FORTUNE ran a follow-up piece about his views last year ([Warren Buffett on the Stock Market](#), Dec. 10, 2001), in which Buffett said that many corporations would be forced to lower their inflated expectations for the returns on their pension funds. (He is proving to be right.) And he pointed out that the value of all U.S. stocks was then a full third higher than the U.S. gross national product, well above that ratio's peak in 1929. The message was clear: Stocks could continue falling. (Right again.)

So what does Buffett think about the market now? Not much more than: "The bubble has popped, but stocks are still not cheap." There is no question, however, that now is a better time to buy stocks than it was in 1999, he confirms.

Buffett's investing precepts remain unflinching as well: "Investors need to avoid the negatives of buying fads, crummy companies, and timing the market," he says. "Buying an index fund over a long period of time makes the most sense." What about buying Berkshire Hathaway stock? "I don't know about that; it's kind of high right now," he says, "though I'd rather own it than the S&P 500. When we were talking about buying back our stock [in early 2000 when it dipped into the low 40,000s], now that was a real sign!" He lets out one of his patented guffawing chuckles, kicking his feet up on the glass coffee table. His stock has risen to more than \$70,000 since then. Investors take note: Next time Buffett talks about a buyback, buy!

The center of Buffett's life isn't the broader stock market but his company, Berkshire Hathaway--and understanding how it works is key to understanding Buffett's thinking. For that I first check in with Buffett's partner, Charlie Munger, who is a member of the golfing party, along with Tom Murphy, former head of CapCities, and Don Graham, CEO of the Washington Post Co. "It's so extreme the way Berkshire is operated that I think a lot of people don't fully understand it," Munger tells me. "We have less overhead and faster decision-making than any other place of our size in the world."

It is truly difficult to overstate just how different Berkshire Hathaway is from other companies. For the record, it is a conglomerate with sizable operations in insurance. It holds large stakes in giant American companies such as Coke, Gillette, and American Express. Berkshire also controls a significant utility and gas pipeline business, and it owns an amazing cornucopia of mundane operations--things like furniture retailers, jewelry shops, and shoe factories.

The company has grown with no master plan or strategic road map, and yet the physical makeup of Berkshire provides investors with a pretty good window into the mind of Buffett. For instance: For years Berkshire was best known as an insurance company with those big stockholdings. But a couple of things have happened. First, Buffett has largely stopped buying huge blocks of stock of companies. His purchases of the Washington Post, for instance, date back to the 1970s. Why has he stopped? Simple: Stock prices have been too high to his taste for years. "I bought my first stock 60 years ago," Buffett says. "Of those 60 years, probably 50 have been attractive to buy common stocks. In probably ten years I've not been able to find anything." Many of those ten, notably, have been recent ones.

Instead Buffett has shifted to buying entire companies (often of the old-economy and private variety), many of which were selling cheap during the tech boom. Some of the acquisitions have also been insurance operations, but others have been part of the aforementioned cornucopia--Benjamin Moore paint, Shaw carpets, a utility called MidAmerican Energy, and most recently the Pampered Chef, a privately held direct-marketer of kitchenware. The result is that Berkshire's famous stockholdings have become somewhat deaccentuated (recently that portfolio was worth some \$26 billion). And while the insurance segment has grown, the part of the conglomerate made up of manufacturing and service companies is now much larger than before. Insurance still accounts for about half of Berkshire's revenues; on a relative basis, though, it's falling.

Through the acquisition of these various businesses--some 20 over the past five years--the number of employees working at Berkshire Hathaway companies has grown at a healthy clip. Today more than 145,000 folks around the country (see [Working for Warren](#)) can stand up and say, "I work for Warren Buffett." That would make Berkshire about the 25th-largest private employer in the U.S. (That's more than the head count at PepsiCo or Marriott.)

How does Warren Buffett find new companies to add to the fold? Typically they

come to him. These days, Buffett says, sellers appear in a couple of varieties: "We're now getting two kinds of calls. We get contacted where people only want us [meaning they want their businesses to become Berkshire companies], and now we get calls where people only want cash--and fast. We're the buyer who can come up with cash over a weekend."

Fitting into the former category--sellers who approach him because they want to be Berkshire companies--is Buffett's latest acquisition, the Pampered Chef. If you are male or hate to cook, you may not have heard of this company. But if you don't fit that description, it's very likely you have. Pampered Chef "consultants" sell cookware and utensils at parties in their homes. It's a sort of upscale Tupperware model.

Twenty-two years ago founder Doris Christopher borrowed \$3,000 from a life insurance policy to start the business so that she could work flexible hours and spend time with her young daughters. Today her company has more than \$700 million in sales, which come from some 70,000 direct-marketers, who host more than 19,000 in-house demonstrations a week. (As for profits, we can say only that Pampered is plenty profitable, with mouthwatering margins.)

Even though her business was flourishing, Christopher knew she needed a plan in the event she (a) dropped dead or (b) decided, upon aging, to step back from the business. She had heard about Warren Buffett years ago, "and in the back of my mind I thought, 'Wouldn't it be great to be part of his company?' but we dismissed it at the time." The name Berkshire came up again, though, and in mid-September, Christopher's bankers at Goldman Sachs contacted Buffett, who immediately liked what he saw.

Within a matter of days Christopher and her president, Sheila O'Connell Cooper, were winging from Chicago to Omaha for a sitdown with the Oracle. "I could tell that in a few minutes--and Doris could tell in a few minutes--that we were made for each other," says Buffett, who made her an offer on the spot. He positively gushes when he talks about the Pampered Chef: "I didn't know the name two months ago, but I could tell that Doris and Sheila love running the business. All I have to do is not get in their way. It's a better story than I am." Well, not quite.

For Buffett, though, this story has all the right plot lines: Pampered is a proprietary, high-margin, growing franchise--and one that's already big to start with. The fact is, size matters to Buffett. That's because Berkshire is actually growing pretty fast and is a heckuva lot bigger than it was ten years ago. Annual revenues have grown from \$3 billion to nearly \$38 billion over that time--with most of that growth having come from acquisitions like Gen Re and Shaw. "They said that Berkshire wasn't scalable," scoffs the 79-year-old Munger. "Well, they were wrong."

While Berkshire clearly has grown and will grow still, Buffett's acquisition diet is limited mostly to big fish. With a few exceptions, a company must now have some \$50 million in pretax profits for Buffett even to consider buying it. That is why he tells me that he may broaden his search for great companies to other countries.

The reason is simple: An acquisition needs to be plenty large to have any impact on Berkshire's bottom line--a line, we should point out, that tends to be somewhat erratic. That's partly because in any given year Berkshire may be taking huge capital gains, a factor that makes following the company's net earnings on a short-term basis a rather fruitless exercise. Example: Because of insurance losses from Sept. 11, last year's earnings plunged 76%, to \$795 million, matching the company's profit tally in 1995. But in 2000 earnings more than doubled, to \$3.3

billion.

If those kinds of gyrations bother you, look elsewhere. Buffett is interested only in investors who have a long-term horizon.

One evening in Pebble Beach, Buffett invites me to join him and his crew over at his sister Bertie's cozy house in nearby Carmel to have dinner. It's a casual get-together: a few drinks and a buffet supper, with Bertie's beloved San Francisco Giants playing on a big-screen TV. The talk here is much the same as it is with any group of guys. A lot of sports, which Buffett can do with the best of them--though a pained look flashes across his face when I remind him that his Nebraska Cornhuskers are out of the top 25 for the first time in decades. At one point during the evening Buffett, his ever-present Cherry Coke in hand, leans over and says to me, "For me, MidAmerican started here, you know. In this house." He is referring to what is likely to be the next cornerstone of Berkshire--MidAmerican Energy Holdings Co., an electric power and gas pipeline utility, based in Des Moines. No, I didn't know, I say to him. Could he explain? Almost exactly three years ago, it seems, Bertie was having another party for her brother and a different group of pals. One of the guests was Walter Scott, chairman of the telco Level 3 and also former CEO of Peter Kiewit Sons', the large Omaha construction firm (see [The Inside Story of Level 3](#)).

"Walter pulled me aside and asked if he could speak with me for a minute in another room," Buffett says. "He talked about this public-utility company called MidAmerican that he was into, which wasn't going anywhere. They had tried to explain the business to Wall Street, but the analysts didn't like it because they were looking for companies like AES or Calpine that had what was called 'deal velocity' [meaning they were doing a lot of deals]. Walter said they were thinking of taking MidAmerican private and asked if would I be interested. I said yes."

You have to remember that at that point many utility stocks were just as hot and overhyped as Internet incubators or B2B stocks. Calpine and AES, for instance, traded at \$56 and \$70, respectively, at their peaks. Today each sells for around \$2. The origin of the utility bubble goes back to the Energy Policy Act of 1992, which lured companies into the seemingly sexy, unregulated end of the business. (Unregulated utilities produce power on a speculative basis, without guaranteed customers, but can sell that power at market rates. A regulated utility has guaranteed customers and regulated rates.) As more and more money streamed into unregulated businesses, Dave Sokol, CEO of MidAmerican, saw what he thought was a tremendous opportunity: Regulated assets were being overlooked.

By the mid-1990s, MidAmerican owned regulated utilities in California, Iowa, and Britain. But while Enron and its ilk sported P/Es of 30 to 50, MidAmerican was selling for six to eight times earnings. "We couldn't figure out what the other companies were doing," says Sokol. "They kept on building power plants and adding capacity, I guess because they thought demand would go up forever. And their trading businesses were also a mystery. The profits seemed impossible to us." Meanwhile MidAmerican's stock was languishing. So Sokol decided in October 1999 to abandon the public markets and sell out to Buffett. Berkshire effectively ended up buying 80% of the company for \$35.05 a share, a cost of \$3.3 billion.

Buffett's timing wasn't impeccable, but it was close. By the summer of 2001 the unregulated energy business--headlined by Enron--began its spectacular collapse. By early this year the situation had become dire for many of these players, including Williams Cos., which suddenly found itself in need of a large amount of cash. What Williams had to offer was the Kern River Pipeline, which transports 850 million cubic feet of gas (cfg) per day over 935 miles from the

Rocky Mountains to Las Vegas and California. The price tag: \$950 million--which was hundreds of millions less than the market would have valued it two years earlier.

Even sweeter for Buffett was MidAmerican's purchase this past July of the 4.3 billion-cfg-per-day, 16,600-mile Northern Natural Gas pipeline. With obvious pleasure Buffett leans back on the couch and tells the story, as though relating the hooking of a giant tuna: "Northern Natural used to be a prominent Omaha company. In 1986 a guy came up from Houston with a smaller company and said, 'Let's merge, and I'll come to Omaha.' Most people in Omaha feel they got double-crossed, because within six or eight months the company had gone back to Houston. Of course, the guy from Houston was Ken Lay, and the company became Enron. When Enron got in trouble a year ago, they made this deal with Dynegy where Dynegy puts in \$1.5 billion and they more or less get Northern Natural as collateral. So Dynegy takes over the pipeline for its one and a half billion, and then Dynegy gets in trouble. So they call us on a Friday and say we need a deal by next week that we're sure will close for cash. So we sent a team down, and we sign a contract by the following Monday morning."

Here's how the math works: Enron effectively sells the pipeline to Dynegy in January for \$1.5 billion. Dynegy sells it to Buffett's MidAmerican six months later for ... get this ... \$928 million. Nice!

MidAmerican now transports about 10% of the nation's gas. "It may be that we'll never make another deal, but it could be a very big company," Buffett says. "MidAmerican is useful because it is big scale." As in potentially very big scale. Berkshire could ultimately end up investing some \$10 billion to \$15 billion or more in this company. If that sounds like a mammoth sum, consider that Berkshire now generates some \$5 billion in cash flow annually from its investments, insurance, and operating companies. "We've got \$100 million a week that I have to figure out what to do with," he says. "It's a happy problem, but it's a problem, especially if I do something dumb with it--and that's easy to do."

After dinner at Bertie's house, Don Graham, Buffett, and I pile into Graham's rented Ford Taurus, and we begin to try to find our way back to Pebble Beach. Easier said than done. It's pitch-black, and I'm in the back seat with a map trying to navigate. "I'm glad Don's driving," says Buffett, as we wend our way through Pebble Beach's myriad dark ocean roads. "I don't like driving at night. Don't see that well at night."

Yes, the man is mortal--even getting on in years. He has \$100 million a week to figure out how to invest, but he has trouble driving at night. Earlier in our visit Buffett had me in stitches with off-color palindromes. (Sorry, but this is a family magazine.) Can this be the same Public Citizen who pens op-ed pieces in the New York Times on the slipperiness of stock option accounting?

Another seeming contradiction: The man whom shareholders count on to defy gravity, time and again, is telling those same shareholders that gravity always wins.

Partly because of Berkshire's ever-increasing size, Buffett had been warning his Berkshire flock for years that the future performance of their company's stock couldn't match the spectacular returns of the past. The future became now in 1999 when Berkshire posted its worst relative return ever. The metric Buffett likes to use to gauge his performance is comparing the annual change in the per-share book value of Berkshire with the total return of the S&P 500. In 1999, Berkshire's book value nudged up 0.5%, while the S&P soared 21% (ergo, relative underperformance of 20.5 percentage points). Since then the company has reverted to its outperforming ways, although 2001 produced another

Berkshire anomaly. It was the first year ever that Berkshire's book value declined. The 6.2% drop was due in large part to the fact that Berkshire's insurance operations lost more than \$2 billion in the Sept. 11 terror attack on the World Trade Center.

That's the bad news. The good news is that because of Sept. 11, pricing in the insurance business has firmed up (meaning the cost of coverage has risen), which is potentially good for the bottom line of Berkshire's insurance operations. (Recently there have been rumors in the market that Berkshire will buy Employers Re, GE's reinsurance business; see [Can GE Light Up the Market Again?](#)) With the S&P down some 20% year to date and Berkshire's operations mostly purring along--as of June 30, Berkshire's book value was up 7.6%--another year of relative outperformance seems likely. As for Berkshire's stock--well, it has certainly held its own recently. On March 10, 2000, the Nasdaq peaked (interday) at 5,132. That same day Berkshire hit a multiyear low of \$40,800. Recently the Nasdaq traded for 1,270, down 75%, while Berkshire traded for \$74,000, up 81%. And, of course, BRK has beaten up on the S&P 500 over the past one, two, five, ten, 15 years--you name the period.

The week after my visit with Buffett, I spent time speaking with some of the CEOs of Berkshire's companies. They number close to 40 now, and Buffett happily points out that in Berkshire's 38 years, not a single one has elected to leave the fold to go work someplace else. This, in part, has to reflect an underrated aspect of Buffett's managerial prowess: his people skills. "He is the best judge of human talent there is," says Rich Santulli, who heads up NetJets, a company that leases fractional shares of aircraft. "And people want to work for him."

Judging by the success of Buffett's companies, Santulli has a point. It is a remarkable group of CEOs, impressive not only in their ability but also in their love of work. There are several octogenarians in the group, including Al Ueltschi, 85, CEO of Flight Safety, and Frank Rooney, 80, at shoe company H.H. Brown.

Joe Brandon, on the other hand, at 43 is one of the youngest Berkshire CEOs. Named head of General Re a year ago, Brandon is also sitting in Berkshire's hottest of hot seats. Even before Sept. 11, Gen Re--which Berkshire bought for \$22 billion of stock in 1998--has had troubles. Its underwriting had been undisciplined, its returns subpar. Buffett has gone so far as to apologize to shareholders for the company's performance.

So, Joe, how's the old man been treating you? "He has been supportive in every way," insists Brandon. "Yes, you are working for one of the smartest guys in the world, so you'd better be prepared. But people just don't understand what a great manager he is." Brandon's point is dead-on and again unrecognized. In part this is because of Buffett himself. "I just buy the businesses and get out of the way," Buffett says over and over. Well, not exactly.

Dig deeper and you discover that Buffett is engaged with each of his companies to a varying degree, depending on his interest and whether the particular business warrants his attention. For instance, Brandon says that he speaks to Buffett up to a couple of times a week. But Buffett talks with Ajit Jain, head of Berkshire's other reinsurance operations, every day. That is not because Jain is doing a bad job. On the contrary, Buffett will tell you that Jain is one of his ablest executives; it's just that insuring jumbo risks--the Olympic Games, for instance--has major financial implications for Berkshire. It's also true that pricing insurance for huge pieces of business like this happens to be a discipline that Buffett loves dearly. As for some of his other companies, here's what Buffett says: "GEICO sends me figures every Tuesday--Internet hits, business closed on the Internet, telephone inquiries closed. I love all that. Shaw sends me the daily sales figures

by fax. And around Christmas--the month before, I like to get daily sales figures from our jewelry stores and from our candy business."

Even with the staggering pile of numbers that Buffett sifts through, and even though he works like the dickens, Buffett is no type-A boss. "Yes, I need roller skates to keep up with him," says Debbie Bosanek, his secretary of nine years, "but I've never seen him get mad. I don't think he'd like to be lied to, though. If you make a mistake and tell him about it, that's okay, but you wouldn't want to cover it up." Adds Tom Murphy, the founder of CapCities: "He wakes up every morning and goes to work to have fun. It's not work. He's only with people he likes, so he isn't stressed out." Buffett is probably one of the few CEOs in America who spends much of the day reading. Buffett doesn't e-mail, and there are no time-squandering meetings at Berkshire's headquarters. "Warren gets blinding headaches if he sits in a room full of people around a table, and a lot of people are saying dumb things on and on," says his partner, Charlie Munger. Buffett and Munger, who have been together 40-plus years, used to talk all the time, but less so now: "By now Warren knows pretty much everything I think. Once in a while I'll know something that's useful to him."

The bottom line is that Buffett's ability to allocate his time and brainpower among all these various businesses is as impressive as his vaunted ability to allocate capital. "Most supersmart people tend to make things more complicated," says Don Graham of the Washington Post Co., where Buffett sits on the board. "He has an extraordinary ability to state things clearly and make them simpler."

But wait a minute--stop the music. There must be some people out there who don't like the guy, right? Well, sure. A long list actually. Buffett has lobbied hard for expensing stock options, so the Silicon Valley crowd aren't big fans. Some also point out that for all of Buffett's grouching about corporate governance, Berkshire has a paucity of outside directors. Buffett gives money to Planned Parenthood, so he's not a favorite of the right-to-lifers. Many investment bankers don't like him--they can't snow him--and he's no friend to the Wall Street analysts--he won't give them any guidance. And as someone (the only one!) who routinely and consistently beats the market, he must drive disciples of the efficient-market theory crazy. Harvey Pitt may be a bit peeved at him, since Buffett has been less than supportive of his tenure. And then there's the matter of the 16,712 votes cast earlier this year against Buffett for director of Berkshire. (For the record, he received 1,140,816 votes in his favor.)

Overall, though, Buffett's stature has never been loftier--and he is using that prominence to weigh in on significant economic and political issues. In addition to the stock option fight, for instance, he has been vocal in his support for a federal terrorism insurance fund similar to the FDIC. "Nuclear attack would bankrupt the insurance industry," he says. "The federal government would have to bail out the country anyway. Why not create this fund before something happens rather than after the fact?"

If talking about nuclear destruction on the sixth green at Pebble Beach is incongruous, it doesn't seem to bother Buffett. A nuclear bomb, he says, "is the ultimate depressing thing. It will happen. It's inevitable. I don't see any way that it won't happen. But we can reduce the probabilities. If there's a 10% probability of something happening in a given year--and I don't know if that's the right probability; nobody knows--then the chances that it will happen in 50 years are 99.5%. If you get it down to 3%, there is about a 78% chance. If you get it down to 1% per year, there's like a 40% chance, so reducing the probabilities per annum of anything happening obviously increases the chance significantly that your kids will get through their lifetimes without this happening. You can't get rid of the knowledge. You can try to control the materials. You'll never get rid of the intent. It is the ultimate problem of mankind."

Late in the afternoon, as the setting sun gilds the back nine outside Buffett's window, I ask him the inevitable question of succession. Or put less delicately, what happens when he dies? Buffett has been through this a million times, and he has a million lines--"I hope the stock doesn't go up too much" being one of his favorites. But this time he turns serious. "Look, this company is going to outlast me for years to come," he says. "These businesses are going to run for 50 years. We have a great team of managers. They know how this company works. It's pretty simple really."

Really? Well, this is one time I beg to differ. It's not so much the operational businesses that are a problem. Presumably those managements would stay and continue their money-coining ways. And never mind that the insurance businesses are pretty darn complicated. It's the capital allocation skills of Buffett's that would be so hard to replicate. Even Buffett's friends privately wonder about filling those shoes.

As for Buffett's family, they are connected to Berkshire today and Berkshire tomorrow in various ways. Buffett's wife, Susie, is a board member of Berkshire and lives in San Francisco--but frequently travels with Buffett. (For more than 20 years Buffett has lived in Omaha with a woman named Astrid Menks. It's a unique arrangement, but one that seems to suit all parties.) Susie Buffett is also CEO of the Buffett Foundation. Buffett's Berkshire stock, now valued at \$34 billion, will go to Susie when he dies (assuming he dies first)--and then, when she dies, virtually all of her assets will go to the Buffett Foundation, which will then distribute the assets. Buffett's elder son, Howard, until recently an executive at an agricultural equipment company, is also a director of Berkshire, and upon his father's death would become nonexecutive chairman of the company. Buffett's two other children, Susie, a homemaker, and Peter, a musician, are trustees of the foundation.

After Buffett is gone, the foundation will become one of the largest philanthropic organizations in the world--though one intriguing point is that Buffett hasn't designated where the money goes. The trustees of the foundation will have full discretion over that disbursement. For now that may be the only part of Buffett's glorious legacy that isn't yet crystal clear.

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