

## Chris Bloomstran on Intelligent Investing in Crisis Mode: BRK Update, Government Intervention

Christopher Bloomstran of Semper Augustus Investments Group joined MOI Global members at our special event, [Intelligent Investing in Crisis Mode 2020](#).

Chris discussed Disney (US: DIS) and updated his previously presented ideas, [Dollar General](#) (US: DG) and [Cummins](#) (US: CMI). Chris spoke on the topic of business interruption insurance and shared his latest analysis on Berkshire Hathaway (US: BRK). Chris also criticized the widespread use of restricted stock. Finally, he assessed the potential impact of government intervention.

*The following transcript has been edited for space and clarity.*

**John Mihaljevic:** Chris, it's a pleasure to have you here to provide your perspective on what is quite a unique moment in market history. How do you assess this situation?

**Christopher Bloomstran:** I'm sure you and your family have been as disrupted as everybody. I'm sure your kids are not playing soccer. My daughter, a freshman in college in L.A., lost her freshman season. Everybody is suffering a little, but my heart goes out to anybody who has been impacted healthwise by this thing.

This is one of the most unprecedented things we've ever seen. I've not seen it in my investing lifetime. I've spent a lot of time over the years studying financial history, and you can't find an episode where there are parallels. The sudden decline — the notion that entire industries are shut down, flat on their back — has never been seen. If you go back to the Great Depression, nominal GDP was \$103 billion in 1929, and it fell to, I think, \$54 or \$55 billion by 1932 or 1933. It declined almost by half, but it took three or four years to get there. Unemployment went from around 3% to the headline number that everybody knows of 24.9%. If you exclude the agrarian community, unemployment got up to 38%, 39%, 40%, but again, it took three years to get there.

During that period, consumption as a percentage of GDP was similar to where it is now, at about 70%, which is interesting, but during that decline, consumption grew to more than 90% of GDP. You cut the economy in half, but people still have to eat, they still have to drink, and so there's a layer of the economy that still exists. Here we are, not knowing how deeply the economy is going to be impacted and for what duration. We're doing a ton of work trying to get our mind around the industries that surround the businesses that we own and how deep this thing will wind up being. We've got to assess how we're going to be impacted by all these federal programs, between the Federal Reserve and the Treasury Department — both here and what's going on with central banking and governments more broadly — but it's an unknowable thing.

My instinct is that going into this, we started with a different set of parameters from those we had going into the Depression or going into World War II. In some ways, it's more extreme than we had going into the 2000 to 2002 downturn and in 2008/2009. We've got on-balance-sheet debt levels that are 350% of GDP, and that's on balance sheet domestically. Abroad, the numbers look similar. Throw in off-balance-sheet liabilities for social security, Medicare and Medicaid, and we have an enormous amount of on-balance-sheet and off-balance-sheet debt burden to contend with. In a decline, these debt numbers are knowable. We're finding out now what it means to have fixed cost in your capital structure and what it means to have variable cost in your capital structure.

If you take the Great Depression, everybody knows the long-term chart that shows the giant spike in

debt. The general presumption is that during the roaring '20s, that debt rose commensurately. We all hear that there was an enormous amount of margin debt during that period. In fact, while there was some margin debt, the stock market was not the overriding asset class in the economy. Debt levels went into the downturn at about 100% of GDP, if my memory serves me correctly. If GDP was \$103 billion, call total credit market debt \$100 billion. That went up to 200% or thereabouts, but when you think about it — and I've written about this in my letters — it was the decline by half of GDP that sent debt levels from 100% to 200%. During those three or four years of decline and then the elongation of the L-shaped downturn that was the Great Depression, debt was being paid down. Debt levels would have gone from somewhere on the order of \$100 billion to \$80 billion, so you got up to 180% or 190% of GDP.

During that period, however, we didn't start at 350%. There's very little room for error here, and that's why you're seeing the huge scope of this second bailout by the government — not unlike what we did in 2008 — but we never really cleaned up the structure. We went into that downturn with debt levels at 350% of GDP. In 1999/2000, they were 250% of GDP, and we struggled with those numbers. We built up real estate and we added debt following the 2002 recession, and we wound up at 350%. Here we are still at 350%, and we haven't cleaned it up.

The Fed's balance sheet was around \$850 billion in 2007, and we ran it up to as high as \$4.5 trillion. Then, following the last iteration of QE, we tapered. The government allowed various of its bonds and mortgages to roll off, and the Fed's balance sheet got down to about \$3.7 trillion at the end of last year. Then we had the crisis in the repo market, which was the canary in the coal mine, with liquidity disappearing despite what seems to be a well capitalized banking system, certainly here. I don't know as much about Germany, with the German banks and some of the European banks still having huge amounts of assets and very little equity capital sitting under them. We were seemingly better capitalized, but there's no liquidity, so the Fed ramped up what they said was not QE, but took the balance sheet back up to \$4.1 trillion or \$4.2 trillion. Last week, now that we are back in the QE game, we were back up to \$4.5 trillion. As of this week, I think we're at \$4.7 trillion.

Then we get the announcement that we're going to have unlimited QE. I saw a release this morning by the Treasury effectively saying they're going to recapitalize or add capital to the Fed to the tune of about 10% or so of its current amount of Fed credit, so if you were at \$4.5 trillion going in, I think the number was \$450 billion, which can effectively be geared up and levered up on a 10:1 basis, which means we're going to create \$4 trillion worth of capital support out of thin air.

If you look at the overall economic picture, we were already in bad shape. We were going to go into this year with an expectation of running a budget deficit of about \$1 trillion, so call it 5% of GDP. GDP was going to be \$22 trillion, but it's not going to be \$22 trillion given what we know now. There are estimates all over the map, from James Bullard (the president of the St. Louis Fed) with onerous predictions for how badly GDP will be impacted, at least for three or four months and then for the rest of the year, to some of the Wall Street houses that are looking for 1% and 2% declines. If you assume we drop from \$22 trillion to \$21 trillion — call it a 5% decline, which I think is going to wind up being modest — at the margin, given what was already a \$1 trillion deficit, the deficit is going to balloon. If we were on 5%, and receipts are let's say at a 5% differential — 17% or so which is tax revenues coming in and you've got outlays of 5% more than that, so call it 22% — those numbers are going to blow out on either side. Just for math's sake, let's call it \$20 trillion, so you have \$4 trillion in receipts and \$5 trillion in outlays. You can make a case that receipts are going to be down by 25%, from \$4 trillion to \$3 trillion, and we know that outlays are going to go up from \$5 trillion at least to \$7 trillion, so now instead of a \$1 trillion deficit, you're looking at probably \$4 trillion, which is unheard of in peacetime.

The cumulative effect of all of these ongoing deficits is that your federal debt — which was already in

excess of GDP by a bit, maybe 105% to 110% — goes from \$23 trillion or \$23.5 trillion up to \$27 trillion to \$28 trillion. You're looking at federal debt to GDP of 130%. You're getting into where you start to have danger zones. It's unprecedented.

We sit here as capital allocators and investors in common stocks, and we're stress testing companies on a credit basis that have net cash in their capital structure or that don't employ on-balance-sheet debt. You've got retailers that have operating leases. We spend a lot of time on the footnotes of the companies that we own, trying to figure out how durable these businesses are. You'd be hard pressed to find many other investors that run cleaner balance sheets than we have. We went into the year with businesses earning 13% on equity and 12% on capital, which means we've got about 10% net debt in the capital structure of our aggregate businesses. More than half of our businesses have net cash. Our businesses earn on capital roughly what they earn on equity, which you don't usually find, given that the typical businesses across the major indices and across the major stock markets use half debt and half equity in the capital structure. We've therefore got wiggle room and margin for error, but we find ourselves assessing how much cash we have, how much access our businesses have to lines of credit.

Then you're looking at how quickly you can cut expenditures, where you have fixed costs and where you have variable costs. How quickly can you defer or slow down capex and R&D? What about your labor? Are you going to keep people on or are you going to fire employees? There are a lot of moving parts to assess. There are businesses that are perceptibly in good shape, but if you have two to four months of protracted downturn, you've got problems. That's where you introduce this federal money, with the notion that nobody could have predicted this, and you can't blame businesses for a complete stoppage in the economy.

First and foremost, figure out who is essential. It was clear at the outset that if you're going to confine people to their homes for a period of weeks or months, you've got to have access to medicine and to food. The first thing that was done was to ensure access to the food supply in our system — the grocery stores. We own Dollar General, which I talked about on your platform in January 2018. We're in good shape with some of those, but you've got industries that can't cut it without access to capital, and to the degree you've got more leverage employed in the capital structure, it makes that margin for error much more thin.

I find myself on the phone with everybody — we've talked to so many CEOs, CFOs, investor relations folks that are in our network, hospital directors and CEOs of hospital systems, trying to get the lay of the land for how long these things are going to run. We've talked to executives within big pharma businesses, trying to assess where plants are still running and where they're down. We talked to one generic/branded pharma CEO the other day. You've got 60 plants in this business, and they're all running. People have taken great steps to ensure we have supply of medicine. If you take the typical factory that produces pharmaceuticals, you may have 20 to 30 different lines of production or you may have 100 different lines of production. They have to take great steps in this environment to segregate all of those lines because you've got to have all of your shifts running. You'll completely isolate a line so if somebody is infected with this virus, you can cordon off a finite portion of a manufacturing facility but not take the entire plant down. It's interesting.

The human response to this thing has been terrific. It reminds me of Amity Shlaes' book, *The Forgotten Man*, on how we dealt with the Great Depression and then moving on, getting into World War II. We took the whole industrial manufacturing capacity of our economy and converted it to the war effort. Business leaders in our country got ahead of the White House. They got ahead of the Roosevelt administration and they geared up our manufacturing capacity. Instead of making cars, we started making planes, and we made ships, and we made tanks. We were supporting the war in Europe, but there was a sense that we'd be pulled into that fight. In contrast to what we're seeing today, however, that was done on a for-profit basis, and it kept the populace employed.

You saw the headline unemployment numbers this morning: three-plus million unemployed, and that's just the first week of this downturn. I applaud the White House for being optimistic — I think the commander-in-chief has to be the chief cheerleader at this point in trying to keep people's spirits up — but the sense we're getting from our contacts in the health world is that if we're two weeks, let's say, behind Italy and behind Spain and behind Germany in the duration of this virus, then we're a week and a half from seeing it peak. There's no sense, though, that you can flip a switch and put everybody back to work immediately. It's likely going to be a couple of months, so businesses without revenues for two months are going to have to go through their cost structure and figure out what they've got on their hands. It's requiring every ounce of analytical ability that we have to ensure that we've got businesses that have staying power, not just for this period but beyond.

**Mihaljevic:** Thank you so much, that's extremely helpful. Before we get into questions on what you just said, I'd love to take a step back. You wrote a terrific annual letter that you sent out on February 14, entitled *Money for Nothing*, in which you expressed some sentiments that were clearly non consensus. Could you tell us a bit about that, because it's important to understand the context with which you went into the crisis that nobody saw in early February.

**Bloomstran:** You're very kind. A couple of people have been trying to convince me that my letter is too short, but they're in the vast minority. I do promise that next year's letter is going to be materially shorter than that of this year.

I've got certain themes. For the last few years, we believe that overall, equity market valuations are very high. By some yardsticks and fundamental measures, we're more expensive now than we were in 2000, or the late 1960s, or the late 1920s. By others, we're not as expensive. I've always tried to get a sense for what I thought fair value for the S&P 500 was. We went into the year believing that earnings expectations out of Wall Street — both top down and bottom up — were too high, but that's generally the case. I wrote this year and even last year, that we thought the third quarter of 2018, which saw profit margins north of 12% — I want to say they were 12.12% or 12.13% — would mark your peak margin for a long period of time. That was where you had the maximum benefit from the tax code changes at the end of 2017. We went out last year with the S&P at, I think, 157 in earnings on an operating basis, and when you back off write-offs and write-downs, I think you're at 139 or 140. Depending on how you cut it, it's trading somewhere between 21x and 23x. Looking forward, estimates were as high as 180 or 175, which we thought was crazy. The economy was already slowing in a lot of industries.

I looked on S&P's website the other day and I think they've got the number down to 165 in operating earnings for the year, which is insane. You're going to have very little growth and a lot of companies with massive operating losses before you get into writing down assets and writing down goodwill and intangibles. \$140 in top-line operating earnings has been our working assumption for the year. We jumped to a 15 multiple. In the back of our minds, we've had an optimistic case that the S&P was fairly valued at 2,100. We almost got there a couple of days ago, but we're well above it at 2,600 or even more — I don't know exactly where we closed. Against that \$140 number, I'm shaving \$30 per year off for just the accounting nonsense that we've written about. Two years ago, I think, I spent a lot more time on it in the letter. We're starting off with a period where stocks were already too expensive, and if we're going to go through a deleveraging phase and we're going to take unemployment back up from the mid-threes, where it's been, to a more normalized level, you're going to get some kind of recovery. I don't think we're going to get a V-shaped recovery, but you might get a U or somewhat of a cross between an L and a U. We're still far from what I would call sensible valuations, and that's even in a world of no interest rates.

If you go back to the Depression, getting up to the World War II period, we kept short-term rates at zero. I was on the phone the other day with a property casualty insurance company CEO and he

reminded me of the Treasury-Fed accord after the war, where we intentionally bought long bonds to suppress the long end of the curve. That's definitely on the table today. I start the letter every year with that macro theme, and I've tried to say for the last two or three years that the stock market has been expensive and credit has been excessive. Within our firm, within Semper, investment wise, we've pivoted the other way. As credit extended and as valuations expanded, we took business quality in the other direction. To date, the sell-off has been pretty indiscriminatory. This bounce in the last couple of days — once everybody is starting to get their mind around what this Congressional package is going to wind up looking like and the massive amount of capital and support that we're going to throw underneath the credit markets — it's hard to get your mind around.

We've been cautious, and it's frustrating on a lot of levels. If you look at some of the businesses that have recovered the most in the last couple days, in a lot of cases it's those that have employed the leverage structures within their capital that we go out of our way to avoid. If we're going to gin up a lot of money — and let's be real about what we call this thing: we're monetizing debt now in a big way — I feel like we've been fooled at some level for choosing the types of businesses that we have, and I feel like the folks that run the businesses that we own are fools for not employing more leverage in their capital structure, because the winners when you monetize debt are those that have the largest amounts of leverage. As long as you don't get restructured and don't have your equity capital entirely wiped out, you survive and you party on. That's a frustrating thing, but it's plausible, even without this virus, that we were in the early innings of a downturn anyway, so I'll take our portfolio and some of the modifications that we've made and move forward.

We think we're in pretty good shape. We were down somewhat in line with the S&P. We've got a lot of small- and mid-cap names in the portfolio, about a third, maybe 30% international businesses, and those outside of the S&P and out of the NASDAQ 100 got beat up pretty hard. I think at the low point, small and mid caps were down mid-40s, while the S&P was down 32% to 33%. We got down to about 29%, 30%, 31% at a point, and we find ourselves down now in the high teens, maybe 20%, so it's not so bad. I'm not sure, though, that we're all the way through this thing.

You asked about the letter entitled *Money for Nothing*, the knock on Dire Straits. The public take and the media take on share repurchases is one sided. I think the media and politicians deem them abusive. We own a lot of businesses that are only buying shares back when they're undervalued. Berkshire Hathaway does a great job with that. We own Subsea 7. They're buying back stock. There are a lot of companies that are cheap, but then you've got those that repurchase shares as the mantra of returning capital to shareholders, and they make no distinction between a share repurchase or a dividend. That's entirely wrongheaded, as your whole community knows. Share repurchase makes sense if you're buying shares for less than intrinsic value. If you're overpaying for economic earning power, then you're throwing capital out the door. I wanted to look at the degree to which companies were consuming profit and capital to offset the dilution that comes from the front end, which nobody gets exercised about, but that's really the problem. Once we introduced expensing of stock options, companies have increasingly resorted to restricted shares, which are an outright grant, and wind up being far more expensive and dilutive because they don't come with a capital inflow.

If you take a stock at \$50 a share and you issue a stock option to an employee with say a 5- or 10-year vesting schedule, the employee only makes money if the stock rises north of \$50. Regardless of whether they're incentive stock options or non-qualified options, you have to come up with the cash. It can be done on a cashless basis, but you have to pay for those shares at the \$50 strike. If the stock rises to \$90, the employee's got a \$40 game, but the company does get paid for the \$50. When you issue restricted shares — whether they're performance shares or just straight RSUs — at \$50 a share, those will come with a vesting schedule in some cases, while in lesser cases, they'll come with various performance metrics, but generally, they're outright grants that are only subjected to a vesting schedule. Early on, when we made the pivot from stock options to RSUs (to restricted shares), the

amount of shares given away per year — the percentage of shares outstanding that were granted to executives and employees — dropped. In the last decade, post the financial crisis, it's been on the rise. What you've got now is an inordinate proportion of restricted shares outstanding versus stock options that are owned by the employee with no cash coming in. What's important is not just repurchases but net repurchases, early on, offset by the income coming in, offset by the cash going out to repurchase.

We ran the math, and it was a Herculean project in that we did not have, and S&P does not provide, great data, so we had to reconstruct the financial statements and the cash flow statements for the entire S&P 500 back to the 1980s. It was a mammoth data pool. I wanted to get a sense of cash in for equity sales and then cash out for share repurchases. What we found was over a long period of time, you're getting about 3% of market value per year extended on share repurchases. Despite a rising stock market for the last decade, that proportion stayed high. We were spending 3% of the company, which, in the last five or six years, between dividends and repurchases, amounted to more than 100% of profit. If the repurchases were more than 100% of profit, companies were taking on leverage — putting debt on the balance sheet — to buy back stock. If there was 3% going out and you had only about 1% coming in from those shares that are bought on option programs, the net dilution to shareholders is about 2% a year. You take the divisor for the big indices — for the S&P 500 — and it's declined by 1%. If you've got 3% going out to buy back shares, yet your shares outstanding — your share count — has declined by 1%, where's the delta? That's the dilution. That's real.

If you take the last decade — and I think people would find this hard to believe — when I looked up the big five tech stocks and compared their mammoth growth in sales and profits and cash flows to the broad market, S&P 500 sales for our economy has been about 3.5% a year. If you're growing the top line at 3.5%, and you're diluting your shareholders by 2%, there's nothing left. Here we are with a whole bunch of businesses and a whole bunch of industries that are starved for capital, that are going to have to recapitalize in some way, shape or form. Whether it comes from the government, whether it comes from preferreds, or from Berkshire Hathaway, we're going to have dilution going the other way, not so much on share issuance, but we're going to be issuing capital because you have to issue it. As you know, if companies were buying back stock to offset the dilution from share issuance, those repurchases were done, on average, at multiples to earnings of north of 20x, so at earnings yields of less than 5%. Just like in '08/'09, when repurchases stopped and went to nothing, the banking industry and other industries had to raise capital, so they were raising it at the most expensive term. It's not the "buy low, sell high", but rather the "buy high, sell low", and it's a criminal thing.

If we're going to bring all this new liquidity to the party, it's proper to say you're not going to buy back more stock. In fact, you ought to say you're not going to issue any more stock. I'd go as far as to say there ought to be a penalty. If you're running a business and you have to take federal capital to stay alive, then if you've gotten filthy rich by being issued shares and having sold those shares instead of keeping them — in my opinion there ought to be a provision when a company issues either a stock option or an RSU that you keep those shares for the duration of your employment, and there should even be a sunset where you've got to keep your shares for some period of time after you're retired, (with exclusions for being fired or what have you) — you ought to pay the price when you have to recapitalize your business. Unfortunately, that's not the way this works.

It's a lot on that theme, but it's going to be a big theme in the next few months and for the duration of the year when we wind up recapitalizing a lot of businesses. I'm not sure the folks in Washington have the sense to think through the issues properly. I could go on and on and talk until I'm blue in the face about the issue. It's bothered me to no end. The behavior that you're seeing now and the handouts are going to be grotesque in size and proportion.

**Mihaljevic:** Let's talk a bit about opportunities that might be out there. You mentioned Dollar General. It's an idea you've presented in the past. Another company you've shared with us in the past



is Cummins, the diesel engine maker. Could you talk a bit about where you're looking right now, where you're seeing some interesting dislocations either in terms of sector or specific businesses?

**Bloomstran:** I can briefly talk about those two specifically, and also, more broadly, in the portfolio. We stress test. There's a business that I bought recently which, if you don't have enough access to capital, will wind up being a mistake. I've never bought a business and turned around and sold it within three months, but we might do it in this case. I've got another business in the portfolio that is simply a mistake. A friend of mine talked about whether you should have cash in the portfolio or not. If we're going into anything other than a V-shaped meltdown or a V-shaped recovery, if this thing is a durable decline in the economy with capital restructuring, then would it make sense to ground the plane and raise a bunch of cash? That gets us into discussions about hyperinflation and what cash does for you.

We've got about 30 stocks in the portfolio, and we've gone through this stress test across all of the names in our portfolio. The portfolio is heavily weighted at the top end. Our top 10 accounts for about 75% of the capital. We went into the year with our businesses trading at about 13x, so 7.5% earnings yield on unlevered capital. We were at 13x ROE and 12x return on capital.

We have a lot of clients for whom we run all their capital and we're in charge of the allocation, and they've had varying degrees of cash on the sidelines. We've been active buyers during the downturn. We've put a lot of that cash on the sidelines. We have some great new clients that have come on board in the last few months — some substantial clients for us, which is great. It turns out there's a lot of cash sitting on the sidelines that's been watching — some folks that perhaps do this thing as right as you can. Surprisingly, we're finding some great new clients that I think will be clients for decades. We do have cash to spend.

Within the portfolio, we've bought a lot. We trimmed Dollar General a couple of weeks ago to raise cash to buy other things that were more opportunistic. We bought Dollar General back in 2016, or maybe early 2017, at high 50s, low 60s per share. We had made, in my opinion, too much money too soon. A couple of weeks ago, the stock was trading at \$160-plus. I think it was pretty close to fully valued. I alluded to determining who's essential during the downturn. The food supply, nationally and globally, is essential, and Dollar General is on the front line of that. We determined there's no way Dollar General would close. 70% of their 16,000 stores nationwide are in rural areas. Costco has seen a huge increase in same-store sales. Ditto for Dollar General, Walmart, the essentials, the grocery stores such as Kroger. Berkshire Hathaway announced they bought a bit of Kroger this year. Those places are essential.

I took half our position in Dollar General — it was 4% — to buy Disney at prices that made no sense. I made a huge portfolio management error a couple of years ago when we bought Disney for the first time at an average of \$99 a share, only to watch the merger with Fox Media's assets close, to watch the rollout of Disney+, and people realized Disney is worth a heck of a lot. We had it earning \$7.50 a share going into the year, with high opportunities to invest incremental capital. The business itself earns high returns on capital. I made the portfolio management error of making it too small of a position. I had 1% in, and I ran it up from \$99 to \$148 or \$150. Great — you make 50% with 1%. For this crisis, the stock got pummeled. Everybody knows that Disney has material investments in theme parks and even a cruise line. The theme parks and the cruise line are a third of their business, and they're closed. Shanghai closed first. Hong Kong closed. Tokyo closed. We closed Disneyworld. We closed Disneyland. The cruise operation is obviously not running. That's a third of the company's operating income, so Disney's not going to earn \$7.50 this year, but we will recover. If it's not a V, I think you get to the point in terms of thinking about how you value businesses. This is an important lesson, and your community will get it, whereas a lot of more amateur investors wouldn't.

I'm going to go off on a tangent here, but if you go back to 2008 and 2009, we took earnings on a reported basis down to negative. Earnings after '07 were supposed to be maybe \$70 or \$80 for the S&P 500, off the top my head, and operating earnings got down to still positive, but they weren't much. Reported earnings had fallen to an impossible number because there were losses for a quarter or two. You had to look through and you had to talk to your clients about how, when you're valuing a business, you're valuing all of the future profit. What looked like these incredibly high P/Es were only high P/Es based on extremely depressed profitability. It wasn't like 1982 when you had profits that were washed out at a 3% profit margin and we were paying 7x or 8x earnings, so 21% or 24% of sales at the lows in 1981 or 1982. There, you had low margins and you had low multiples. That wasn't so much the case in '08. You had high multiples in '08, but that's because earnings had been so crushed.

Today, if you're capitalizing profits, you've got to think about not using what are going to wind up being this year's numbers, but you've got to start thinking about capitalizing 2021 and 2022, but you've also got to assess the degree to which profitability is permanently impaired. I remember doing that back in '08, going through the portfolio and running our intrinsic value models, trying to assess how long that economic downturn would last and whether there was any real diminution of profitability, because you look foolish by saying, "I've got businesses that are going to sail right through this thing." I think of Dollar General, and guess what: Dollar General is going to sail right through this thing. All of their stores are running. They're hiring employees. They're running shifts in the morning to accommodate seniors. They were on the front end of that curve. If you look at the business historically, Dollar General is a business that thrives during economic downturns. Their same-store sales are always the highest in the teeth of a recession or depression. Why? Because the median household income of their customers is half of the national average, so call it \$30,000. What happens when you get into a recession and unemployment rises? A lot more families become reliant on food stamps, and food stamp use will be part of these provisions going forward. Ironically, it's about as counter-cyclical of a business as you can get. Dollar General sails right through it. Everybody can make their own case for valuation. I still consider it to be holdable because I think a decade hence, instead of having 16,000-plus stores, they'll be running 24,000 stores. They've still got a long runway to grow.

Cummins, on the other hand, was already in an economic downturn. We had run through some environmental standards that began in 2010 here domestically and various other standards in Europe and in Asia. They've got joint-venture partnerships in China and India, but Cummins was already in a downturn. Their customers were already taking fewer trucks. They had already upgraded to meet environmental requirements. The company went into the downturn in good shape, with a great balance sheet for a capital-intensive business. They had cash exceeding total debt on the balance sheet. If you stress test the thing, in addition to the \$1.5 billion in cash, they've got almost \$3 billion in revolver capacity. But you've got to look through a business like this. You look through to their big customers: Volvo, Navistar, Paccar, Daimler. They're closed. They've closed their manufacturing facilities, so the large portion of Cummins' business that sells diesel engines into these OEM customers has stopped for a period of time. You've got to stress test if that part of the business is closed, how durable is that piece of the business?

The good news is Cummins has a huge installed base of distributors and service centers domestically and around the globe. What's essential if we're going to keep the food supply up and running? The trucking supply, and so the truckers are running. The truckers are going to run through the worst of this virus because we've got to feed the people. You can't even imagine a scenario where we don't have access to food, and so there's a portion of Cummins that will operate during a downturn. The distributors and the service centers are there to service trucks and provide parts that are needed. The stock is already cheap. Our basis in the stock was in the low 140s. It traded to \$100 earlier this week, then recovered a lot. I don't know where it closed today, maybe around \$133. We had earnings going



into the year for Cummins at about \$12. They were \$15 last year. There's a case that they could be \$7 or \$8, but again, you can't capitalize the downturn. You have to ask the question: can Cummins survive this economic downturn? We're of the mind that their balance sheet is terrific, and the management is terrific, and they'll scale this thing accordingly. They may go through a period where a portion of the business is flat on its back and makes no money, but they have the liquidity and sources of liquidity so that they won't need a federal bailout to survive.

That's where a lot of our businesses are. I don't want to go through the whole portfolio and talk about what we're doing, but there are places where we have weaknesses, and there are places where we have apparent strengths. If you'd like, I would be happy to scroll through some of the conversations that we've had and a lot of the work that we've done in the insurance world and talk about Berkshire.

**Mihaljevic:** Sure, that'll be great.

**Bloomstran:** You think about property casualty insurance and reinsurance and the first thing that jumps out at everybody is business interruption insurance. We've done a lot of work in the last couple of weeks trying to get our mind around what we knew to be the case, which is: business interruption is a property line that almost always requires property damage. It's a property line. We've talked to underwriters, and to some lawyers that represent some of the Lloyd's Syndicate. There's a lot of precedent in law that will be important, in terms of demonstrating that you've got to have true property damage. The lawyers will come along because there's a lot of business interruption, and they'll claim that the introduction of a virus into a restaurant or into a facility is a physical thing. You also have the counter issue of how long it takes to clean a virus and for a virus to die on its own. We'll see it tested in the courts, but the property casualty insurers and reinsurance, when it comes to the business interruption lines that they write, have good — though I won't call it ironclad — precedential law in their hip pocket. We're in pretty good shape there.

The other big one — and it's written more in Europe than it is here domestically — would be cancellation policies. You think about every professional sports league that's down. You think about television rights. You think about the Olympics being delayed by a year. My understanding — and what we've heard — is those lines are typically in good shape because the industry learned its lesson after SARS and typically requires a separate rider for pandemics that very few buy. We think somewhere between 5%, and 10% — maybe no more than 15% — of cancellation policies have those riders in place. Without the explicit rider, you don't have a claim.

Counterintuitively, we've got other businesses in the portfolio that benefit as well. You think about Geico inside of Berkshire, also on the insurance front. They're a huge beneficiary of an economic downturn of this magnitude, because where do your losses evolve when you're writing personal auto or commercial auto policies? From auto accidents. If nobody is driving, think about the degree to which frequencies of accidents will go down. The loss ratios for the first and second quarters are going to be unbelievably profitable. The regulators will come back and take that away from them, but you'll also have the case to be made that we're going to normalize the underwriting cycle, and once people are back at work, the frequencies will snap back up, but you're going to show at least top-line underwriting profits.

The struggle that more insurers are going to have is we're back to a world of zero interest rates. I could make the case that, barring hyperinflation, we'll have short-term rates at zero or maybe negative for another decade. If you look at the three-month bill here, in the last couple of days, it's negative. You've got negative interest rates all over the globe in terms of sovereign debt. Many insurance companies have most of their investment assets in fixed income — which is not the case with Berkshire, but it is in most cases, with 90% on average invested in bonds. You're now faced with a much lower interest-rate environment than what we had for a two- or three-year period of time.

Insurance wise, we think Berkshire is in good shape.

Looking at other parts of the business, the railroad is going to be off. The level of rail traffic is down. When I flew to L.A. a couple of weekends ago to drive home for the rest of the school year with my daughter and bring her Jeep back, we were stunned at the number of trains that were parked on sidetracks. You saw that in 2008/2009 when the economy stopped, though obviously, the whole economy wasn't idle. I remember flying around the country during that period to visit management and see clients, and it was stunning when you fly into a port city and see containers stacked on top of each other for as far as the eye could see over the railyards in Chicago. You're getting that now again. Rail traffic will be down.

The good news with Burlington is a lot of their costs are variable. If the number of carloads is down and the number of trains running is down, then you're not spending as much on fuel, and so that's down. There are clearly fixed costs. Burlington was going to do \$5 billion or \$6 billion in profits this year. You could shave a little off that, but as economic activity picks back up, they'll be fine. Burlington is not a case where profits go to zero. There's enough variable cost in the cost structure there to keep them out of trouble.

That would also be the case for electric utilities, the four utilities and the transmission and energy assets that the business has. If they were going to do \$3 billion or \$4 billion, you make the case that for the duration of this downturn, when people are quarantined in their homes, and many plants are not running, we're going to use a lot less energy. However, this is a regulated business. There's a lot of variable costs there. The fuel supply that goes to power plants declines commensurate with use, and it's regulated. If we get into a Depression-type scenario, the regulators will make accommodations, and they're going to let these businesses earn back decent returns on capital. You've got those two regulated businesses within Berkshire that combined generate as much as \$9 billion or \$10 billion. 25%, let's call it, of Berkshire's profitability is ironclad immune from a sustained downturn. You'll have a hit to revenues on the railroad, but not too much.

The MSR businesses are a whole other story. We've been frustrated with some of the disclosures at Berkshire over the last two or three years. There's a lot of missing information going back to 2003. Berkshire would, within the Chairman's letter, provide a lot of supplemental information about how the key segments of the business were performing. It was nice to get a simplistic balance sheet and income statement for the consolidated businesses that make up this MSR group. That information has gone missing in the last couple of years for reasons that I shouldn't get into on a podcast. You can read about them in the letter.

A frustration with Berkshire's management is that they've bought some mediocre businesses in the last decade and a half. If you look at returns on equity of the group, they've declined consistently from '03. The businesses that make up this group were earning around 9.8% to 10% back in '03, '04, '05, and they've headed consistently downward. Take the Precision Castparts acquisition, which we think was overpaid for for a business that we already had some fundamental concerns with. We owned a 1% position in Precision and were already struggling with their customers taking some production in house and away from them. Donegan and his guys rolled up the industry, and who's better off in a transaction — the seller or the buyer? The seller, in this case, was better off, and you saw it in the wake of the deal, because who would have predicted that the turbine business would be flat on its back.

The collective group within that MSR group earned 6.5 points on equity in 2016. We're not in the business, as investors, of owning businesses that earn 6.5 on equity if that's the normalized number, even on an unlevered basis. It's no good. We had a bit of a bailout the following year with the change in the tax code. If you think about that MSR group, it's a very domestic group, so the cut in corporate

taxes from 35% to 21% was an immediate 21.5% boost to profitability. The group then looked like it was earning around 8% on equity again. That's unacceptable.

In the last couple of years, a lot of those businesses have been proving how weak they are. Now you've got a lot of industries slowing. The auto industry is slowing, various pockets of manufacturing were slowing before this virus. When the Berkshire annual comes out, I like to look at roughly how right we were in laying out where each of the segments wound up for year end. I was stunned to see two years ago the revenue number at the MSR group grow by as much as it had exclusively in the fourth quarter of 2018, and figured out pretty quickly that they had rolled up the finance and financial products businesses. You can make the case that by that point, that was such a small group within the whole of Berkshire that maybe it should have been rolled up, but then you look at what's happened over the last two years, and it should be obvious to anybody that studies Berkshire closely that the highlight business inside of perhaps all of Berkshire Hathaway in the last few years has been Clayton Homes. They've knocked the cover off the ball. They've absolutely killed it. They've been growing sales and earnings by 20% a year. It's a very profitable business. By rolling that business inside of the MSR businesses, that served to mask this ongoing erosion of profitability.

The struggle we've had has been management's notion that the MSR group is a great group of businesses because they earn — you've read it every year in the Chairman's letter — 21%, 22%, 23% on unleveraged tangible equity. That's inclusive of goodwill, however, and here's the problem I have with that: if you buy a business at a premium and you put a bunch of goodwill or other intangibles on the balance sheet, and that business has the opportunity to reinvest capital or take on new capital and grow at those returns or close to those returns, that's terrific, but as most of you all listening know, within the MSR group, these aren't businesses that have use for incremental capital, and most of the profits of most of those businesses — if not all of the profits of some of those businesses — gets upstreamed to Omaha. Thus, the only number that matters when you're assessing that group is return on equity, because that includes the goodwill and the premiums that were paid by the business. If you've driven that number down to 6.5% on a 35% tax rate, then you've got issues. That group was going to do maybe \$140-plus billion in revenues and \$10 billion in profit, let's say, but when you think about this downturn now — we have no idea how bad it gets or what the duration of this downturn will be, but you could shave \$5 billion — half of the expected profits — off the MSR group for this downturn.

Across the rest of Berkshire, if you think about where the rest of the profitability comes from — I talked about the rail, the utilities, the MSR — dividends are about \$4.5 billion. You're going to see dividend cuts. There are a lot of companies that should have been out in front of cutting dividends far before now, but in any discounting operation, you have to think about the entire tail, not just the current. If dividends are whacked down by 10% or 20%, you lose \$500 million, maybe \$1 billion. I wouldn't read a lot into that because in a lot of those cases, those dividends will snap back over time. Unless you get a sustained 20% drop in overall industrial production and manufacturing activity, then you have a 20% drop in the domestic side of GDP (forgetting about net imports or exports), and then you've got an issue. I wouldn't read a lot into dividend cuts.

Underwriting stands to be fine. I talked about the losses in the insurance operations. Geico is going to be a huge beneficiary. We normalized underwriting profit at 5% of premiums, so maybe \$2.5 billion after taxes. You've got the various equity-method businesses — Kraft Heinz. All I have to say about Kraft Heinz whenever I'm asked about it is how much worse can it get when you're supposed to get \$800 million or \$900 million, or maybe \$1 billion in profits from the business? We're still going to be manufacturing processed foods, with the food industry and its distribution being essential to feeding people when they can't work. Kraft probably isn't greatly impacted by the downturn.

There are the other equity-method businesses that collectively are only going to do about \$400 million

or \$500 million in profit. The biggest of those is Pilot Flying J. The trucking industry has to keep running during the downturn, and Pilot Flying J has the big truck stops and the franchise restaurants within the system. You won't see that drop off. Your volumes will be off. Instead of them earning maybe \$300 million on Berkshire's behalf, it'll be off because you won't have the road traffic from the cars stopping in, but the trucks will run and that business will make money.

Where does the rest of the profitability come from? You get into the accounting adjustments that we make. The biggest one that everybody makes is the look-through earnings for the stock portfolio, which were \$10 billion dollars at year-end last year. Pick a number. Go through those businesses. It's a good thing Berkshire doesn't own railroads and banks, right? The earnings are going to be way off for the current year. Who knows what GAAP-reported earnings are going to be for Berkshire's collection of businesses, but I guarantee it's not going to be \$10 billion for the year. Everybody's got to make an assessment for how long and how durable this downturn is — if it's a V, if it's a U, if it's an L. If you're discounting the entire tail and we get back to levels of production that we had in 2019 in the not-too-distant future — by 2021 let's say — then \$10 billion in retained earnings that never flows through the income statement at Berkshire is still on the table and viable.

For those that read my letter, I've got the optionality premium of the assumption being made that Berkshire will spend a good chunk of its cash on things other than T-bills now earning 2%. We've always assumed they would put money to work in an average of 7%. We think they put it to work at 10% plus. 7% is simply a time value of money mechanism. We'll find out on April 15, when Berkshire reports its 13F, as to how active they've been buying shares of stock. I was surprised they didn't buy more in the fourth quarter of 2018. I would lay out a lot of money and bet everybody that they'll have spent a large amount of capital buying back Berkshire's own shares. You'll see some deals. I don't know if we get to any of these preferred deals like what they did in '08 with GE and Goldman Sachs — the 10% preferreds, callable at a premium with warrants underneath them. Those things wound up yielding 13% or 14%. They were beautiful investments. Who knows where Berkshire comes into the capital bailout structure when you've got all this federal capital just waiting in the wings to come in. It's interesting.

Berkshire is a big position for us, and I think they're in pretty good shape. That's the proper way to think about it. When I think about Berkshire — I said it at the year end — they had about \$42 billion in economic earnings. That includes \$3 billion for the optionality of the cash, and everybody can make their own decision about that, so \$40 billion. It won't be \$40 billion this year, but discounting 2021 and beyond, I think \$40 billion is right. When the stock traded at a market cap of less than \$400 billion, I don't recall a time that Berkshire has traded at 10x what I would call normalized earnings. It's got a fortress balance sheet, and it's got a lot of businesses inside it that are about as well protected against the downturn as you can have. It made no sense to me that the stock traded at 160. I presume, as people are trying to figure out this federal package and trying to figure out how to make money in a hurry, they'll use things like Berkshire as a source of capital to go chase other things that are more sexy and more high octane. Berkshire at \$400 billion is, in my opinion, as much of a back the truck up as you're ever going to get in a lifetime.

That's not to say that the downturn is not going to go way lower and Berkshire can't trade way lower. It didn't give investors a lot of comfort or protection after September of 2008. I remember, on September 30 of '08, we were about flat for the year, whereas the S&P was down 20, and Berkshire was pretty much flat for the year. From October 1 on, until the market low in March of the next year, Berkshire pretty well traded down dollar for dollar with the stock market, and its stock portfolio dropped from something like \$80 billion into the 30s. At a point, 100% of the unrealized gains were gone. I think you were at a point last week where the vast majority of the unrealized gains in the common stock portfolio had evaporated, which is astonishing, though when you've got a lot of airlines and banks during a time like this, it's not so surprising. I won't get into names, but there are a lot of

businesses that we wish they didn't own. Berkshire's stock portfolio is not remotely as high quality as it should be, and the results in the last 10 to 20 years show it.

I'll leave Berkshire alone, John. That was way too much, I'm sure, on that. I tend to go off on tangents when I'm talking about the business, but it's the cornerstone of our portfolio.

**Mihaljevic:** That was terrific. Thank you for that deep dive into how you view Berkshire. Earlier you brought up this notion of debt monetization. We normally don't go much into the macro stuff, but given the magnitude of what's happening, I'd like to get your perspective a bit more on this. You said we're going to get to debt levels that are quite dangerous. We were running record deficits in recent years with a good economy, so can anyone credibly hope that's going to reverse? Are you seeing any willingness among politicians of either party to make that a priority? The people who think that the balance sheet is going to reverse itself through tightening and taking liquidity out — aren't they just deluding themselves, and what's really happening is, as you said, debt monetization and money printing? Which leads to the next question: what are the implications, and what do we need to do?

**Bloomstran:** That's a hard question, and it's a huge problem. For my investing career, starting in the early 1990s, we watched debt levels grow as a percentage of the economy. When we got to 250% debt to GDP in 2000, we were concerned. I think GDP was \$10 trillion, and you had \$25 trillion in total credit market debt. We thought that was a problem. Here we are at 350%.

We've already opened Pandora's box with this whole debt monetization, and not allowing price to find a floor, not allowing the credit markets to do what they should do cyclically. We've deferred a genuine credit restructuring for the last 30 years. We haven't done it. We refuse to do it. The Fed has put a put underneath the market. For that, we're now down the path of introducing the tails of the bell curve that investors have to think about, and they've always been in the skinny end of the curves. The tails are severe disinflation or deflation on one hand, which is what you have now. We're trying to deleverage the capital stock, and virus aside, we've been trying to deleverage the capital stock anyway. The energy patch was going to de-lever in a massive way this year, as there is no way they could roll the debt that a lot of these independent and smaller companies have taken on, as those debts roll off in the second half of '20 and all of '21 and '22, but we refuse to let it happen.

I would say 5% annual deficit in a world of very low inflation is high and problematic, but it's at a slow-enough clip that even if we were just going to run \$1 trillion, we could have muddled along and debt levels would grow. Japan has seen their government debt at multiples of where we are, but they haven't grown their economy despite taking on all that leverage and the Bank of Japan backstopping credit assets, even backstopping equities, owning larger swaths of the financial assets. In Japan, they haven't introduced any growth. Nominal GDP is no higher than it was 25 years ago, which is an amazing thing. You extrapolate that experience, which is an insular economy, internally financed — the debt inside Japan is inside of Japan. It's not externally owned. In the rest of the industrialized world, all of this debt is externally owned by everybody else. Parts of it are in the banking system.

You look at Dodd-Frank and the notion that the banks are in better shape now than they were in 2007. We've got more capital in the banking system, certainly, but you've got all these levered credit funds held by private equity and otherwise — levered hedge funds that now have no liquidity. The Fed is rushing to backstop and provide liquidity in the system, and it has to do so on such a gargantuan scale because we are already in a situation where the Fed's balance sheet was gargantuan, with federal debt increasingly owned by the Federal Reserve and not by private investors. There's just no solution. It's going to be a ballooning. The Fed's balance sheet this year stands to double in size. With the math that I went through — being able to lever up \$450 billion new capital at 10x, and doing that in a hurry — you can't run it off. You saw them trying to run it off with the taper a couple of years ago. They ran the balance sheet down from 4.5 to 3.7, and all of a sudden, the economy stopped here and globally. It

was a problem. I don't know where you get to. I fear, assuming I get to live a long lifetime, into my 90s — I'd love to live as long as Mr. Munger — we're going to have to deal with this in our lifetime. There's a reason that in Brazil and Argentina, wealthy families own land and they own cattle, because every 10 or 12 or 15 years, they decide to blow up the currency, create hyperinflation and go back to the start. It's never been done on this scale. The global economic system has never had the leverage introduced into it as it has today, and it's being done globally. The question of whether you can hide in one currency versus another — I don't think that's even appropriate. I don't know how this plays out.

The best example that I've used with clients in the last couple of weeks is Bayer. Bayer now owns Monsanto and all of their roundup liabilities, but beyond that, Bayer's a big industrial business. Between World War I and World War II, Bayer was a huge industrial business in Germany. When you had the hyperinflation there, and the mark went from four to the dollar to four trillion — it might have been two to two trillion, but I think it was four to four trillion — if you owned cash, you lit all your money on fire. You had nothing. If you owned bonds, you had nothing. If you owned Bayer, you had residual value because Bayer had industrial assets that manufactured things that people needed regardless of the level of inflation and the level of decline in the purchasing power of the currency. Fast forward from the hyperinflation, when the Nazis went to war and rolled into Poland, they had commandeered Bayer's industrial assets for their war effort. They effectively nationalized the business, and used Bayer's assets to make planes and tanks and ships.

For two or three years after the war, the Allies, as victors, controlled all of those industrial assets of the countries that lost the war. Ultimately — and I don't remember precisely when but let's say two or three years post 1945 — they were able to go back and reconstruct the shareholder roles to the extent they could. Lo and behold, if you were an original shareholder of Bayer, you salvaged some value. I don't know how much value you salvaged, but if you think about having gone through hyperinflation, having lost your assets in a war to the country that started the war, and then having had those assets commandeered by the victors, and you still had value, that tells me that tangible assets, but also tangible businesses — businesses that have purchasing power, that sell things people need in any economic environment, whether it's disinflationary, deflationary or hyperinflationary — can and should be a store of value. Your traditional metrics, like price to cash flow and price to earnings, will not matter in that kind of an environment. You're simply in a mode of having to preserve wealth.

The game that we're all in of managing money and trying to outperform this and that benchmark is changing. It's probably already changed and perhaps it's taken this crisis to do so. Instead of playing the dance of outperforming benchmarks, it's going to be apparent — perhaps with this crisis, perhaps with the next, perhaps it's when we try to run off the \$9 trillion or \$10 trillion Fed balance sheet a year from now and you can't do it — that we've gone down the path of monetizing debt. I take comfort in owning proper businesses, in owning a lot of the businesses that we own. If this crisis evolves and if we get on the path of debasing currencies — not so much currencies against each other, but just the purchasing power of currency against tangible assets — we will continue to make portfolio changes and try to own businesses that can withstand the greatest of economic shocks. I don't know what else to do.

We live in interesting times. This is an extremely difficult environment. Some have come out and tried to predict that this is the bottom, and maybe it is for this round of it, but we've opened Pandora's box, and we're going down the path of having to deal with unsustainable credit levels. We have a government in place and elected officials in place whose primary responsibility is getting themselves reelected and not with making the hard decisions. If they had made the hard decisions, we would have done it 30 years ago and 20 years ago and 10 years ago, but they won't do it. It takes a crisis, perhaps, to do it.

Where we'll be in two or five or 10 years will depend a lot on how we deal with monetizing the debt.



You can't live the rest of your investment life with your head in the sand and pretend like this isn't an issue, because it's been an issue. It's hasn't been such an obvious issue because you've had this rising tide of all of this fake liquidity lifting all boats. We're dealing with it now.

I hope the ones who have behaved the best are not penalized. We've behaved well by trying to ferret out the most solid balance sheets that we can own. I'd hate to see the managements of the companies that we own who have done the right thing by being conservative with the capital structure be the ones that are harmed by debt monetization. If that happens, then we've done something wrong. For those that are over-levered — whether we're not going to restructure them in this iteration because the Fed and the Treasury are willing to do anything they can on the Congress to stave off this particular downturn — we are going to rationalize that debt in one shape or form. The end game is not pretty, but it's survivable. The old adage of the battle for investment survival should be at the fore of everybody's minds in today's environment. There's no way to sugarcoat that.

**Mihaljevic:** Thank you for that perspective. We'll have to wait and see how this plays out.

**Bloomstran:** The cheery perspective, right?

**Mihaljevic:** Yeah. It's looking — at least at the moment — that the folks who behaved the most prudently are not going to be the ones that get any benefit from what the government is doing, and those who didn't behave prudently are the ones getting bailed out. That's not sending a great message.

**Bloomstran:** Think about this exercise. I know a lot of you folks on the line are business owners, with RIA shops, or any other business. I don't know what this federal package fully looks like. I know we've quantified the income levels at which individuals can qualify for checks from the IRS. I wish a lot of this were being administered through the unemployment insurance system. As a business owner, I've got to think what I'll do if the government comes to me and says, "Semper Augustus, we will loan you money to keep your workforce intact, to not lay anybody off." For those of you that understand how RIAs work, we do have fixed costs, and that's our labor cost and rent. We benefit as the owner of a money management firm from the operating leverage you get on the upside. Our assets under management grow. You don't necessarily add incremental costs at the same rate that assets grow. The flip side of that coin is you bear the brunt of the operational decline. If markets are down, as they were recently, 30% to 40% or 45% — I think the median stock was down 50% — I don't know where my income is, but take the conventional business owner running an RIA. You're going to make a lot less money when assets are down 20% to 50% or more, and some will lose money. You thus have the question of whether you keep your staff on. We're going to keep our staff on, but if the government comes to me and says, "We're going to go to every business with fewer than 500 employees and we're going to loan you some dollar amount to keep your payroll intact," if we don't take the money and we're monetizing debt that way, then we're the victim of inflation.

I hate to think we're going to be put into that box of having to do the right thing. We've never borrowed a dime of capital on our business. I'm going to have to make the hard decision, if those are the parameters by which we deal with small business. If the government's good intention of keeping people employed means they're giving money away on a one-year or a two-year loan, that as long as you keep your payroll intact, it's a forgivable loan, how can we not think about taking that capital, even though I wouldn't dream of taking it in any other scenario, because you can't allow yourself to be a victim of inflation when they create it? That's an interesting thought exercise for everybody running businesses and listening in, because it seems like that's where we're headed.

**Mihaljevic:** Interesting times, certainly. We'll leave it there. I appreciate you taking the time to be with us and share such a fascinating and well-researched perspective. Thank you. We appreciate your

wisdom.

**Bloomstran:** I'm glad to have done it. It's always good to talk to you, and you've done a great job with the MOI platform. I'm a huge fan. I wish I'd gotten involved years ago instead of just three or four years ago, whatever it's been. I will say this was a crazy couple of weeks. I did not know this recording was going to be live. I'm glad it's not on video, because I'm sitting here in a T shirt and a golf sweater and running shorts. Along those same lines, lately I've had the most unusual conversations with all of these captains of industry and folks that are in the business world. I can't recall a time that I've heard more dogs barking on telephone calls than I have in the last two weeks. It's extraordinary. Everybody seems to be working at home. It's not just my dog doing the barking.

**Mihaljevic:** I've heard a few barks while recording these sessions, and I might be guilty of that myself at times. Everybody's tolerance for background noise is a lot higher these days.

**Bloomstran:** If the worst thing we have is some barking dogs and kids in the background, then so be it. Although we live in a world of capital, at the end of the day, all that matters in this current situation is everybody's health and safety. I wish the best to everybody in the MOI community. I know we'll get through this thing. It's interesting.

**Mihaljevic:** I wish you and your family all the very best in this period. Stay safe.

#### *About the instructor:*

Christopher P. Bloomstran, CFA, is the President and Chief Investment Officer of Semper Augustus Investments Group LLC. Chris has more than 25 years of investment experience with a value-driven approach to fundamental equity and industry research. At Semper Augustus, Chris directs all aspects of the firm's research and portfolio management effort. Prior to forming Semper Augustus in 1998 - in the midst of the stock market and technology bubble - Chris was a Vice President and Portfolio Manager at UMB Investment Advisors. While at UMB Investment Advisors, Chris managed the Trust Investment offices in St. Louis and Denver. Among his investment duties at the firm, he managed the Scout Balanced Fund from the fund's inception in 1995 until 1998, when he left to start Semper Augustus. Chris received his Bachelor of Science in Business Administration with an emphasis in Finance from the University of Colorado at Boulder, where he also played football. He earned his Chartered Financial Analyst (CFA) designation in 1994. Chris is a member of the CFA Society of St. Louis and of the CFA Institute. He has served on the Board of Directors of the CFA Society of St. Louis since 2002, where he was elected to sequential terms as Vice President from 2005 to 2006, President from 2006 to 2007 and Immediate Past President from 2007 to 2009. Chris has judged the Global Finals and the Americas Finals several times for CFA Institute's University Global Investment Challenge. Chris served for a number of years as a member of the Bretton Woods Committee in Washington DC, an institution championing and raising awareness of the International Monetary Fund, the World Bank and the World Trade Organization. He has also served on various not-for profit boards in St. Louis. He resides in St. Louis with his wife and two children.