BILLIONAIRE BUDDIES
The $91 Billion Conversation
Warren Buffett and Bill Gates answer questions, first for 2,000 Nebraska students, then for FORTUNE. The billionaire buddies on the economy, philanthropy, and investment strategy—an exclusive report.
FORTUNE
Monday, October 17, 2005
By Daniel Roth

It's the Friday before the University of Nebraska's Big 12 Conference opener in football-mad Lincoln, but the Cornhuskers game isn't the only hot ticket in town. On a beautiful late September afternoon, some 2,000 students are lined up outside the school's Lied Center auditorium, an hour before the doors open. Andrew Schoemacher, a lanky 19-year-old chemical-engineering sophomore, doesn't even have a ticket but hopes he can scrounge one to get inside. How could he miss seeing this show? After all, he says, "It's Bill Gates and Warren Buffett."

Gates and Buffett—friends who just happen to be the two richest men in the world, worth $51 billion and $40 billion, respectively—are coming together for a free-ranging question-and-answer session. They have done this kind of talk before—once. The two met up in Gates' hometown of Seattle in 1998 with students at the University of Washington. Back then both men were on the verge of turbulent times: Microsoft about to face off against the government in its epic antitrust trial, and Buffett weeks away from buying reinsurer General Re, now the thorn in his company Berkshire Hathaway's side, thanks to its involvement with the troubled AIG. Fortune, the only magazine invited to attend their first chat, found the interaction "something pretty darn close to wisdom" and put the talk on the cover (see The Bill & Warren Show. So when the billionaires decided to meet again, we went along for an inside peek at the event—and more important, some private time with the two men to pose our own questions.

Over lunch with FORTUNE's Daniel Roth—Cherry Coke and sliced turkey on white bread for Buffett; roast beef with mustard on white for Gates—the two moguls loosened up, talking about their close relationship, their plans for poker that night, and Wall Street's willingness to lead investors down the wrong path. Both men are shaping up: Gates, 50 in October, has dropped 20 pounds by running regularly; Buffett, 75, has shed 12 pounds thanks to three-times-a-week personal-training sessions. And they're reshaping their plans as well: Buffett reverses himself
and says for the first time that he may begin giving away his fortune before he dies. What follows are excerpts of that conversation, plus highlights of their Q&A with the students.

**FORTUNE:** A few quick hits. First: best book you've read lately.

**BUFFETT:** Katharine Graham's *Personal History* is sensational. I think everybody ought to read that.

**GATES:** There's one called *The Bottomless Well*, about energy, that I love. There's one about computer science, Ray Kurzweil's book—I have a preprint, so I'm not sure when it's coming out—called *Singularity Is Near*, about artificial intelligence. The Tom Friedman book [*The World Is Flat*] is superb. Jeffrey Sachs wrote a book called *The End of Poverty*, the Jack Welch book *Winning* came out this year, and don't forget [Jared Diamond's] *Collapse*, which is the follow-on to one of the best books of all time [*Guns, Germs, and Steel*].

**FORTUNE:** Your last big splurge?

**BUFFETT:** You mean personal expenditure?

**FORTUNE:** Right.

**BUFFETT:** Plane. That's the only way in which having a lot of money has changed my life—a NetJets G4. [Note: Berkshire owns NetJets.] I spend a couple hundred thousand dollars a year, or maybe a little more.

**GATES:** Splurge ... I guess if I lose at poker tonight, it's a $500 splurge.

**BUFFETT:** That is a splurge.

**GATES:** Warren's and my betting has always been confined to $1 bets.

**BUFFETT:** This fellow in Omaha called me about a poker game, and it sounded like fun. But with Texas Hold 'Em you've got to play for money. That's the nature of the game. I think bridge is a better game, but poker is a lot of fun.

**GATES:** If we'd had an ideal fourth here, we might have opted for bridge.

**FORTUNE:** What does your friend think when you say, "Oh yeah, I'll come over for poker. I'm going to bring my buddy Bill Gates"?

**BUFFETT:** We kept it quiet. The guy that's setting up the game knows, but the other participants don't.

**FORTUNE:** Back to the lightning round: Make a call on the market. Seven years from now, will the S&P 500 have returned over or under 10% annually?

**BUFFETT:** More likely to be under than over. You're not going to have the GDP in nominal terms grow 5% a year and everybody make 10% a year.

**GATES:** I'd say under, most likely. The notion that returns will continue to be superhigh—there are some clouds out there.

**FORTUNE:** The last time you did a talk like this, Warren, you said that people were making "fairly reckless assumptions" about big stock market returns. Is the same thing happening
today with hedge funds and private equity?
BUFFETT: In the late 1990s people were looking in their rearview mirror, and they thought that God had granted Americans the right to 15% a year. They built that into pension assumptions. They built it to some extent into what endowment funds spent. Now, six or seven years later, people look in the rearview mirror, and they see that conventional investments haven't produced remotely anything like that. And so they say to themselves, "Well, how do I get it? I'll turn to alternative investments." You can be sure that vacuum will be filled by Wall Street people who say, "You're right looking in that rearview mirror and seeing conventional investments don't work. Come with us, because we have the Holy Grail." And the thing about the Holy Grail is that you have to pay a lot more.

GATES: In venture capital there were very high returns with small amounts of money, and then very poor returns with large amounts of money. This desire to have high absolute returns—and seeing that places like Harvard University were cleverly in alternative assets—has led to this thought that "Okay, there must be something out there returning 10%. I just haven't found it yet." So the fact that expectations of returns exceed reality, that's still true today.
BUFFETT: And Wall Street feeds that.
GATES: It's Wall Street's job. [Both laugh.]

Plugging the trade gap
Is Microsoft part of the solution?

FORTUNE: Warren gave a speech to Allen & Co. this summer about his worries surrounding the ballooning U.S. trade deficit. I'm curious, Bill, whether you have the same sort of fears that Warren does.
GATES: Warren has got me thinking hard about it. I watched that speech twice, and after each time I'm more concerned. I believe in the basic principle that trade is a supergood thing. I'm very worried that the reaction to this imbalance is to put on trade restrictions to bring imports down, which would lead other nations to do similar things. I think the greatest danger is something that would slow down the benefits that the free trade system has brought.

FORTUNE: Don't companies like yours, as they move production overseas, add to the trade deficit problem?
GATES: Microsoft is a net exporter—more than any other business. We do way more of our R&D here than we get in sales here. If the U.S. had about 100 more Microsofts, the trade deficit would be gone.
BUFFETT: High tech has been one of our huge advantages. You're looking for the things in the world that you're good at, and let the other guy turn out bananas. We're never going to be good at growing bananas in this country. But I don't think the trade deficit is a stable thing. If you had a major economic disruption, and people just had a general feeling that "look at what this situation has done"—you get some very bad political
consequences. It's almost inevitable.

**FORTUNE:** Is that your biggest fear about what happens to the U.S.?

**BUFFETT:** The biggest problem we have is in terms of rogue states, terrorists, and nuclear, chemical, or biological weapons. Economically, I think the U.S. is going to be fine. If the rest of the world's GDP per capita grows faster than ours, that's the way it should be.

**GATES:** It's too bad that economics isn't taught or a hobby for lots of people, because you do run into those who seem to say, "There's only a certain number of jobs." That's not the case. Let's say tomorrow we could decide that everyone in India is as rich as we are. Would the world be a better place? Certainly. Would the U.S. thrive more because of the great products and work that would be done over there? Absolutely. The world getting richer is a great thing. It has been a great thing. It will continue to be.

**BUFFETT:** It's not a zero-sum game.

**GATES:** Right, that's the key.

**Giving of themselves**

*Evolving ideas on philanthropy*

**FORTUNE:** You have different philosophies about philanthropy, with Bill giving a lot of his money away today and Warren waiting until he dies to give it away. What arguments would you make to the other that your way is the right way?

**BUFFETT:** Well, I think his way is better. He and Melinda, they're devoting a huge amount of money, terrific brains, and heart to it. That's a great combination. I couldn't have done that when I was in my 40s and added anything meaningful. At my age now, you can argue that a very significant percentage of the money has been made. And I don't need the stock to control Berkshire, so it may make sense to do something very significant before I die.

**FORTUNE:** Is this a change for you?

**BUFFETT:** It's an evolution.

**GATES:** In 1998 I was just getting started [in philanthropy], and back then I would have said, "Look, it's too confusing and distracting to be making money and giving money away at the same time." I didn't think I could spare the time. As my dad encouraged me to jump in, as Melinda weighed in on that side, and both of them were willing to put time into it, we got a great person in Steve Ballmer, who actually I'd known at Microsoft a long time—the pieces really fell together. I'd always thought that I would wait until I was done working full-time before I'd do a lot of philanthropy. But it's worked amazingly well to be able to do some of both.

**BUFFETT:** Bill's got a better mind for it. I couldn't do what he does. I wouldn't get any enjoyment, because I would know I wasn't that good at it. I want to see the money used intelligently. I don't regard my death as being the perfect timing, necessarily.
FORTUNE: Do you two talk about this?
BUFFETT: Oh, sure.
GATES: Absolutely.

FORTUNE: Are you trying to persuade Warren to be as hands-on in philanthropy as you are?
GATES: No, but I share the enjoyment I get out of it and some of the fun dynamics, the dynamics of what works and doesn't work. It's a lot like the world of business—not enough that you can just walk into it, but you learn some of the specifics and then the experience of business applies.
BUFFETT: Berkshire is so much a part of me that I never could walk away from it. But I don't think that I'm going to quintuple [my personal fortune] in six or eight years. The amount is big enough now to do very significant things, and way different than when I was in my 40s. I mean, if I had done this in my 40s, it might have been $20 million. Now we've got a sum that can do something significant. And I don't need it to control Berkshire. Nobody's going to take over Berkshire at its present size, which was not the case 20 years ago.
GATES: I'd never thought that giving wealth to my own kids could be disadvantageous until I read a Fortune article—BUFFETT: "Should You Leave It All to the Children?" [Sept. 29, 1986].
GATES: Right. Warren was a strong voice in that article. And after I read it, I thought, Wow, it would be a mistake as you get past a certain amount [to hand it all down]. So this idea that it should all go back to society, Warren influenced me dramatically on that.
BUFFETT: And he's doing a better job. [Laughter.] It's interesting that the same people who talk about the terrible cycle of dependency that welfare brings will then hand their kids when they emerge from the womb a lifetime supply of food stamps. But some poor woman who's had two pregnancies by the time she's 17, they say, Oh, this is terrible to give her anything.

New investments
Why Gates is buying Berkshire

FORTUNE: Warren, I know that you don't typically invest in tech companies, but I'm curious if Microsoft is looking tempting.
BUFFETT: With Bill on my board, people would assume that I had inside information if I made money. And if I didn't make money, it wouldn't be a good idea. [Both start laughing.]
GATES: Yeah, they'd assume I misled you.

FORTUNE: But, Bill, you've been buying more Berkshire Hathaway.
GATES: Well, out of all the board members, I have the smallest percentage of my net worth in Berkshire stock.

FORTUNE: So this isn't a takeover attempt of Berkshire ... GATES: [Laughing.] No, no, no.
BUFFETT: If anybody takes over, I hope it's Bill.
GATES: When I get up to 1%, I'll let you know.

FORTUNE: Speaking of Berkshire, you both like its subsidiary, Dairy Queen. So, last question: Dilly Bar or Blizzard?

BUFFETT: Well, I actually prefer something I call a Dusty Sundae. But given the choice I would have to say a Blizzard.

GATES: I would pick a Dilly Bar.

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