

# ODLUM BROWN REPORT

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**ODLUM BROWN**  
Investing for Generations®

### INSIDE THIS ISSUE

Page 1  
[Wisdom from Warren's Woodstock](#)

Page 3  
[Who Should Consider Life Insurance?](#)

Page 4  
[Odlum Brown in the Community](#)

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## Wisdom from Warren's Woodstock

Warren Buffett opened this year's Berkshire Hathaway annual meeting by pointing out how his partner, Charlie Munger, always gets the girl in the pre-meeting video promotion.

According to Buffett, "Moms across the country tell their daughters: if you're choosing between two rich men, choose the older one." The room erupted with laughter. At 85, Buffett is seven years younger than Munger.

While Buffett's joke is a little controversial, it nonetheless highlights the importance of not taking life too seriously. Indeed, the duo's wit and wisdom are big reasons why thousands make the annual trip to Omaha to attend the so-called "Woodstock for Capitalists."

Berkshire caught many investors off guard this year when it announced that its annual meeting would be webcast for the first time in the company's history.

The annual event has caused air fares and hotel prices to spike, making the annual trip less palatable to many value investors. Benefits to Omaha's local economy aside, Buffett wanted to make sure that the company's meetings remained accessible to shareholders from across the globe.

Given the opportunity to listen to the meeting by webcast, some of my colleagues and I pondered whether we should make the trip. Ultimately, we decided to go, along with 38,000 others! The decision was driven in large part by the events scheduled around the expedition, including Markel's brunch

and meeting, Creighton University's panel discussion on value investing and multiple informal meetings with like-minded value investors. Plus, who could resist the opportunity to buy Berkshire-themed Fruit of the Loom underwear at the bargain price of \$3 a pair?

After making the trek and participating in the meeting, we came to realize the intangible benefits of attending in person. The value lies in the experience of conferring with thoughtful and smart long-term investors. Stepping away from the daily routine also allows investors to re-calibrate the lens through which they view and make investment decisions. Even the most seasoned investors can have their vision clouded by the daily distractions of shorter-term share price movements, and quarterly earnings reports that measure results against Wall Street expectations rather than underlying business performance. Sitting in the auditorium with the "Oracle" and his sidekick is a time to pause, and remind ourselves that investing in sound businesses with honest and capable managers at their helms continues to be the most common-sense approach to generating stellar long-term returns.

Here are some of the key takeaways from our trip:

- **Culture is significant to a firm's value over the long term.** While human nature causes most people to obsess over near-term events, Berkshire's key stakeholders, including its board, managers and employees are committed to a culture that promotes a longer-term focus. At the meeting, Buffett noted that "many good ingredients are in place," while Munger said he

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The message hasn't changed over the years. In sync with our view, Buffett and Munger remain upbeat on the U.S. economy, expecting gross domestic product per person to continue to grow over time, albeit at a potentially slower rate.



believes that Berkshire's culture will surprise everyone by how well it lasts. As owners, we were comforted by these views and believe in the durability of the company based on its corporate culture and leadership. Berkshire's corporate efficiency is one of the many positive outcomes resulting from its culture. In fact, only 25 people work at its head office, which is incredible considering the size of the company.

- **Focus on the micro.** Charlie Munger highlighted this perfectly by stating, "Micro-economics is what we do and macro-economics is what we put up with." It is easy to get distracted; making sense of interest rates, foreign currency, debt cycles, foreign politics and global macro-economic trends is complicated with no clear answers. We can simplify investing by spending more time studying specific factors that determine the long-term viability and profitability of a business. By looking at business models, supply and demand factors, and competition, investors can better determine if a company will be successful without spending too much time distracted by macro-economic guessing exercises.

- **Steer clear of bad businesses.** A young cattle rancher from Arizona asked Buffett and Munger for their thoughts on the beef business. Munger quickly stated that cattle-ranching was a terrible business. While the answer was likely not what the young man wanted to hear, it provided the audience with an invaluable lesson. It is important to recognize bad businesses and stay away. Regardless of a strong management team, or a positive forecast for a near-term upturn, a bad business is ultimately just that – a bad business.

- **Study the incentives that drive behaviour.** To understand and predict how someone will react in the future, we need to understand how they are motivated. Buffett and Munger discussed how GEICO, their auto insurance business, structures its bonus compensation to encourage employees to both grow the business and increase profitability. Too many firms focus solely on profits, which tends to discourage managers from spending time on business development, as growth is generally associated with additional costs. As investors we need to be on the lookout for poorly constructed incentive arrangements. A sound reward system encourages managers to pursue activities that emphasize and ultimately enhance long-term shareholder returns.

- **Good governance is hard to measure.** Ask any board consultant for best practices around corporate governance and they will tell you that the Chairman and the company's CEO need to be separate to ensure board independence. Rotating term limits for board members is also critical. Despite being an incredibly shareholder-friendly company, Berkshire Hathaway does not meet either of these governance standards. Failing to meet these objective guidelines is noteworthy, but there are exceptions to every rule. As investors we need to be flexible when we see good businesses, even if they are unconventional.

The message hasn't changed over the years. In sync with our view, Buffett and Munger remain upbeat on the U.S. economy, expecting gross domestic product per person to continue to grow over time, albeit at a potentially slower rate. We, too, are optimistic that, despite expectations for a middle-through economy, future generations will benefit from productivity gains and technological and quality-of-life improvements.

Despite the option to tune in from afar, making the actual trip to Omaha was worth the journey. We came home with many takeaways and some new investment ideas to pursue. We also fine-tuned our compass, met many great people and even dreamt of a new blizzard flavour inspired by See's Candies' famous peanut brittle – a sweet example of the great businesses owned by Berkshire Hathaway.

We look forward to the event next year!



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# Who Should Consider Life Insurance?

**Life insurance is one of those topics that most people try to avoid. For some, the exercise of planning for one's death by preparing a will or purchasing life insurance is something they would rather put off for another day.**

**So who should consider life insurance?** If your family members or loved ones would need financial support after you die, or if they would be negatively impacted by paying your last expenses and outstanding debts, chances are you need life insurance. Here is a brief overview about life insurance, who it can benefit and who it can protect.

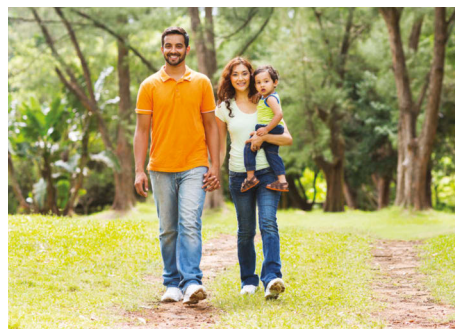


**Single People:** Most people who are single believe that they do not require life insurance because no one is financially dependent on them. However, there are some exceptions. For example, some individuals may provide support for elderly parents, while others may carry large amounts of debt, such as student loans, that they would not want to pass on to family members.

**Married or Common-law Couples:** Couples share financial obligations – everything from mortgages to car loans to credit cards. While many couples wait until they have children to consider their life insurance needs, it is important to note that changes in your overall health may affect your eligibility for future coverage. As a matter of interest, many insurance companies will not offer coverage or preferred rates during a woman's pregnancy.

**Married with Children:** Today, many couples need both incomes to maintain their standard of living. Would your family be able to live on just one income? Other considerations might include paying for your children's future education costs or funding the lost income that was needed to provide for the survivor during retirement years. Also, it is not uncommon these days to see very large mortgages that go unprotected. Most bank creditor plans have a cap

on the total amount of coverage they will offer which can often leave the family home exposed to unnecessary risk. Personal life insurance coverage regularly provides more flexibility and savings than mortgage insurance.



**Stay-at-home Parents:** Salary.com estimates that a stay-at-home parent's role, based on the work that he or she does on average, is worth an annual "salary" of \$143,102.\* Yet, many families with a stay-at-home parent do not have adequate coverage.

**Single Parents:** It is often easy to overlook the importance of having insurance coverage as a single parent. As the primary caregiver and income earner of the family, it is worthwhile to review your insurance needs to ensure adequate coverage for your family's financial future. (While not specifically life insurance, income protection in the event of a disability or critical illness is also extremely important, particularly for single parents.)



**Retirees:** Your children may have left the nest and your mortgage may be paid off, but that does not mean that your savings alone can take care of expenses that may lie ahead. In the event of an unexpected death or major health care expense, a surviving spouse may need additional capital to supplement income to last 20 or more years. Life insurance coverage can also guarantee a source of tax-free funds that are available, without delay or the need for probate, to cover funeral expenses and tax liabilities.

**Business Owners:** In addition to family concerns, many business owners have additional insurance needs such as funding buy-sell agreements, replacing key employees or covering business loans. Business owners could have personal guarantees outstanding or may have used the family's principal residence as collateral for business loans, which could cause unintended, complex issues for the surviving family members.

The fact is, most people need life insurance. As you move through different stages in your life, your insurance needs will change. Life insurance should serve as the foundation of a family's financial security and be an integral part of any financial plan. Regardless of your age, marital status or whether you have children, take a moment to consider how life insurance might fit into your financial plans. Many clients use life insurance products to create, preserve and protect their estates for their families or loved ones.

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\* "2016 Mother's Day Infographics," Salary.com (2016). Figures in USD.

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# Odlum Brown in the Community

We are committed to supporting initiatives that matter to our communities:



## Bard on the Beach June 3 – September 24 Vancouver, BC

We are pleased to be the Presenting Sponsor of Family Nights at this year's Bard on the Beach Shakespeare Festival. Heading into its 27<sup>th</sup> season, Bard has grown to become Western Canada's largest professional Shakespeare festival and BC's second-largest theatre

company, offering Shakespeare plays, related dramas, diverse concerts and special events against a living backdrop of mountains, sea and sky. This year, Family Nights will feature *The Merry Wives of Windsor* and *Romeo and Juliet*, along with family-friendly activities and an exclusive pre-show talk designed just for kids.

For more information, visit [bardonthebeach.org](http://bardonthebeach.org).

## Canucks Junior Golf Week July 4 – 11 Throughout BC

For the third year, we are proud to once again partner with the PGA of BC as the Presenting Sponsor of Canucks Junior Golf Week. This event is held at more than 40 golf facilities throughout BC and is open to children and youth ages 5-18. This continued community partnership and program is designed to help children and youth from across the province stay active, and to teach them important life skills such as honesty, sportsmanship, responsibility, integrity and respect. Boys and girls from all skill levels will learn the game of golf through certified PGA of BC instructed golf camps in their respective communities. Visit [canucks.com/golfweek](http://canucks.com/golfweek) for more information.



## Harmony Arts Festival July 29 – August 7 West Vancouver, BC

This year marks our 15<sup>th</sup> year as Presenting Sponsor of the Harmony Arts festival, one of the North Shore's best-loved community events. Whether you're lured by world-class musical performances, inspiring visual art, mouth-watering culinary events or simply

the natural beauty of the setting, there is something for everyone at this annual celebration of the arts. The Harmony Arts Festival turns the Ambleside waterfront and John Lawson Park in West Vancouver into an outdoor spectacle with a variety of events for adults and kids. This year, the Festival is introducing an exciting new venue, the Park Royal Marina Club, as well as a new Readings in the Park program, featuring authors such as Joseph Boyden. Most events are free to the public. Visit [harmonyarts.ca](http://harmonyarts.ca) for more information.

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