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1 Page Transcript from 1997 Berkshire-Hathaway-Annual-Meeting, when Warren Buffett boldly claimed, Mutual Fund Managers have “gotten a lot for nothing”.

Important: He is not just talking about US Mutual Fund Industry.

Must Read For Mutual Fund Investors ■

#KnowledgeZarooriHai

MOST FUND MANAGERS HAVE "GOTTEN A LOT FOR NOTHING"

2 min read / 1997-Berkshire-Hathaway-Annual-Meeting Morning Session

At this meeting four or five years ago, you commented that money managers in the aggregate have not done better than various market indices. And you attributed this, in part, to the frictional cost inherent in an actively-managed portfolio.

I wonder if today you would update your thoughts on this. And do you think that this underperformance compared to index funds will continue?

And then a related question, if the two of you were giving advice to a classroom of equity mutual fund managers, are there two or three things in particular that you would want to suggest to them?

WARREN BUFFETT: Yeah. Well, I would say this. Money managers, in the last few years since I made that statement, have not disappointed me. (Laughter)

In aggregate, they have underperformed index funds. And it's the nature of the game. They simply cannot overperform, in aggregate. There are too many of them managing too big a portion of the pool.

There was a bite being taken out of every dollar that was invested in the parimutuel machines, that people that invest their dollars elsewhere through money managers in aggregate cannot do as well as they could do by themselves creating their own index fund, or it would be easier to have — just to buy into an index fund.

It's — you know, they say in this world you can't get something for nothing. But the truth is money managers, in aggregate, have gotten something for nothing. I mean, they've gotten a lot for nothing. And people — investors have paid — and the corollary is investors have paid something for nothing.

And that doesn't mean that people are evil. It doesn't mean that they're charlatans or anything. It's the nature. They cannot do as well as unmanaged money, in aggregate.

And it's the only field in the world that I can think of but where the amateur, as long as he recognizes he's an amateur, will do better than the professional does for the people whose money he's handling.

And therefore if I were in a — teaching this class or speaking to that class, I would probably tell them that for their own psychological well-being they should probably leave the room. (Laughter)

We would be willing to take any money management organization in the world managing 10 billion or more, and in the case of brokerage houses who have their brokers in aggregate handling 10 billion or more, and we would be willing to bet that their aggregate investment experience over the next five years or ten years for the group that they advise will be less — will be poorer — than that achieved by a no-load, very low-cost index fund.