Summary all public writings Warren Buffett

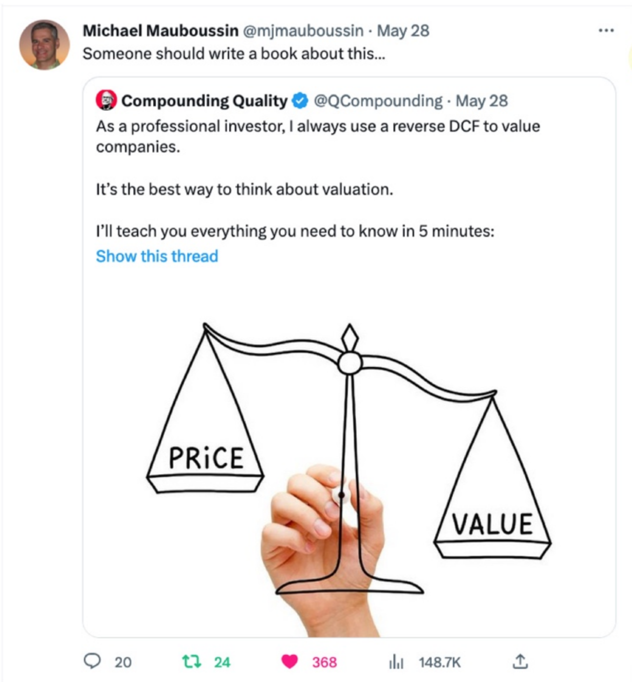
Our mission

Compounding Quality has a true passion for investing and helping other investors. We aim to invest in the best companies in the world as it's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.

Compounding Quality used to work as a Professional Investor but left his job to help investors like you. The main reason for this? He was sick of the short-term mindset of Wall Street and wanted to genuinely do the right thing.

All readers of Compounding Quality are treated as PARTNERS. We ride our investment journeys together.

Some of the most famous readers? **Jeff Bezos, Michael Mauboussin, Jason Zweig, Guy Spier, John Cena, Bill Ackman and LeBron James.**



What to expect

This document with a summary of all public writings of Warren Buffett is 100% free.

On the website, subscribers get the following:

- Each Tuesday: 5 investment insights
- Each Thursday: a general investment framework
- Each Sunday: an update on the Portfolio

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Early Partnership (1956-1969)

- I do not attempt to forecast either business or the stock market
- **I do not attempt to forecast the general market. My efforts are devoted to finding undervalued securities**
- I will continue to forecast that our results will be above average in a declining or level market, but it will be all we can do to keep pace with a rising market
- Our performance in a single year has serious limitations as a basis for estimating long-term results
- The higher the level of the market, the fewer the undervalued securities
- I would rather sustain the penalties resulting from over-conservatism than face the consequences of error
- I own thirty to forty securities of high quality. This policy should lead to superior results in bear markets and average performance in bull markets
- My continual objective in managing partnership funds is to achieve a long-term performance record superior to that of the Industrial Average. I believe this Average, over the years, will parallel the results of leading investment companies. Unless we do achieve this superior performance there is no reason for
  The existence of the partnerships.
- Our bread-and-butter business is buying undervalued securities and selling when the undervaluation is corrected along with investment in special situations when the profit is dependent on corporate rather than market action
- One year is far too short a period to form any kind of an opinion as to investment performance
- **My thinking is much more geared to a five-year performance**
- Such a commitment may be a deterrent to short-range performance, but it gives strong promise of superior results over a several-year period combined with substantial defensive characteristics
- My wife and I will have the largest single investment in the new partnership
- In strongly advancing markets I expect to have real difficulty keeping up with the general market
- It is my feeling that three years is a very minimal test of performance
- **Just because something is cheap does not mean it is not going to go down**
- We invest in 3 categories:
  - Undervalued securities
  - Work-outs: these are securities whose financial results depend on corporate action
  - Control situations: where we either control the company or take a very large position and attempt to influence the policies of the company
- **You will not be right simply because many people momentarily agree with you**
- You will be right, throughout many transactions, if your hypotheses are correct, your facts are correct, and your reasoning is correct. True conservatism is only possible through knowledge and reason.

- **I feel the most objective test as to just how conservative our manner of investing is arises through evaluation of performance in down markets**
- Complete honesty of Warren Buffett: 'It may turn out that I am completely wrong."
- Investment performance must be judged over a period of time with a period including both advancing and declining market
- **The ground rules of Berkshire Hathaway:**
  - In no sense is any rate of return guaranteed to partners
  - Whether we do a good job, or a poor job is not to be measured by whether we are plus or minus for the year
  - While I much prefer a five-year test, I feel three years is an absolute minimum for judging performance
  - I am not in the business of predicting general stock market or business fluctuations
  - I cannot promise results to partners. What I can and do promise is that:
    - Our investment will be chosen based on value, not popularity
    - We will attempt to bring the risk of permanent capital loss to an absolute minimum
    - My wife, children and I will have virtually our entire worth invested in the partnership
- The Joys of Compounding:

The Joys of Compounding

I have it from unreliable sources that the cost of the voyage Isabella originally underwrote for Columbus was approximately $30,000. This has been considered at least a moderately successful utilization of venture capital. Without attempting to evaluate the psychic income derived from finding a new hemisphere, it must be pointed out that even had squatter's rights prevailed, the whole deal was not exactly another IBM. Figured very roughly, the $30,000 invested at 4% compounded annually would have amounted to something like $2,000,000,000,000 (that's $2 trillion for those of you who are not government statisticians) by 1962. Historical apologists for the Indians of Manhattan may find refuge in similar calculations. Such fanciful geometric progressions illustrate the value of either living a long time, or compounding your money at a decent rate. I have nothing particularly helpful to say on the former point.

The following table indicates the compounded value of $100,000 at 5%, 10% and 15% for 10, 20 and 30 years. It is always startling to see how relatively small differences in rates add up to very significant sums over a period of years. That is why, even though we are shooting for more, we feel that a few percentage points advantage over the Dow is a very worthwhile achievement. It can mean a lot of dollars over a decade or two.

	5%	10%	15%
10 Years	$162,889	$259,374	$404,553
20 Years	$265,328	$672,748	$1,636,640
30 Years	$432,191	$1,744,930	$6,621,140

- Just because something is cheap does not mean it is not going to go down
- **"Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results. The better sales will be the frosting on the cake."**
- I feel the most objective test as to just how conservative our manner of investing is arising through evaluation of performance in down markets
- **I am certainly not going to predict what general business, or the stock market is going to do in the next year or two since I don't have the faintest idea**
- We think that short-term results (less than three years) have little meaning
- Investment decisions should be made based on the most probable compounding of after-tax net worth with minimum risk

- The Joys of Compounding:

<u>The Joys of Compounding</u>

Now to the pulse-quickening portion of our essay. Last year, in order to drive home the point on compounding, I took a pot shot at Queen Isabella and her financial advisors. You will remember they were euchred into such an obviously low-compound situation as the discovery of a new hemisphere.

Since the whole subject of compounding has such a crass ring to it, I will attempt to introduce a little class into this discussion by turning to the art world. Francis I of France paid 4,000 ecus in 1540 for Leonardo da Vinci's Mona Lisa. On the off chance that a few of you have not kept track of the fluctuations of the ecu 4,000 converted out to about $20,000.

If Francis had kept his feet on the ground and he (and his trustees) had been able to find a 6% after-tax

investment, the estate now would be worth something over $1,000,000,000,000,000.00. That's $1 quadrillion or over 3,000 times the present national debt, all from 6%. I trust this will end all discussion in our household about any purchase or paintings qualifying as an investment.

However, as I pointed out last year, there are other morals to be drawn here. One is the wisdom of living a long time. The other impressive factor is the swing produced by relatively small changes in the rate of compound.

Below are shown the gains from $100,000 compounded at various rates:

	4%	**8%**	**12%**	**16%**
10 Years	$48,024	$115,892	$210,584	$341,143
20 Years	$119,111	$366,094	$864,627	$1,846,060
30 Years	$224,337	$906,260	$2,895,970	$8,484,940

It is obvious that a variation of merely a few percentage points has an enormous effect on the success of a compounding (investment) program. It is also obvious that this effect mushrooms as the period lengthens. If, over a meaningful period of time, Buffett Partnership can achieve an edge of even a modest number of percentage points over the major investment media, its function will be fulfilled.

Some of you may be downcast because I have not included in the above table the rate of 22.3% mentioned on page 3. This rate, of course, is before income taxes which are paid directly by you --not the Partnership. Even excluding this factor, such a calculation would only prove the absurdity of the idea of compounding at very high rates -- even with initially modest sums. My opinion is that the Dow is quite unlikely to compound for any important length of time at the rate it has during the past seven years and, as mentioned earlier, I believe our margin over the Dow cannot be maintained at its level to date. The product of these assumptions would be a materially lower average rate of compound for BPL in the future than the rate achieved to date. Injecting a minus 30% year (which is going to happen from time to time) into our tabulation of actual results to date, with, say, a corresponding minus 40% for the Dow brings both the figures on the Dow and BPL more in line with longer range possibilities. As the compounding table above suggests, such a lowered rate can still provide highly satisfactory long term investment results.

- **Our business is one requiring patience**
- About the importance of patience: "It would not surprise me if we continue to do nothing but patiently buy these securities week after week for at least another year, and perhaps even two years or more
- **In the great majority of cases, the lack of performance exceeding or even matching an unmanaged index in no way reflects a lack of either intellectual capacity or integrity. I think it is much more the product of: (1) group decisions - my perhaps jaundiced view is that it is close to impossible for outstanding investment management to come from a group of any size with all parties really participating in decisions; (2) a desire to conform to the policies and (to an extent) the portfolios of other large well-regarded organizations; (3) an institutional framework whereby average is "safe" and the personal rewards for independent action are in no way commensurate with the general risk attached to such action; (4) an adherence to**

certain diversification practices which are irrational; and finally and importantly, (5) inertia.

- The Joys of Compounding:

<u>The Joys of Compounding</u>

Readers of our early annual letters registered discontent at a mere recital of contemporary investment experience, but instead hungered for the intellectual stimulation that only could be provided by a depth study of investment strategy spanning the centuries. Hence, this section.

Our last two excursions into the mythology of financial expertise have revealed that purportedly shrewd investments by Isabella (backing the voyage of Columbus) and Francis I (original purchase of Mona Lisa) bordered on fiscal lunacy. Apologists for these parties have presented an array of sentimental trivia. Through it all, our compounding tables have not been dented by attack.

Nevertheless, one criticism has stung a bit. The charge has been made that this column has acquired a negative tone with only the financial incompetents of history receiving comment. We have been challenged to record on these pages a story of financial perspicacity which will be a bench mark of brilliance down through the ages.

One story stands out. This, of course, is the saga of trading acumen etched into history by the Manhattan Indians when they unloaded their island to that notorious spendthrift, Peter Minuit in 1626. My understanding is that they received $24 net. For this, Minuit received 22.3 square miles which works out to about 621,688,320 square feet. While on the basis of comparable sales, it is difficult to arrive at a precise appraisal, a $20 per square foot estimate seems reasonable giving a current land value for the island of $12,433,766,400 ($12 1/2 billion). To the novice, perhaps this sounds like a decent deal. However, the Indians have only had to achieve a 6 1/2% return (The tribal mutual fund representative would have promised them this.) to obtain the last laugh on Minuit. At 6 1/2%, $24 becomes $42,105,772,800 ($42 billion) in 338 years, and if they just managed to squeeze out an extra half point to get to 7%, the present value becomes $205 billion.

So much for that.

Some of you may view your investment policies on a shorter term basis. For your convenience, we include our usual table indicating the gains from compounding $100,000 at various rates:

	4%	8%	12%	16%
10 Years	$48,024	$115,892	$210,584	$341,143
20 Years	$119,111	$366,094	$864,627	$1,846,060
30 Years	$224,337	$906,260	$2,895,970	$8,484,940

This table indicates the financial advantages of:

(1) A long life (in the erudite vocabulary of the financial sophisticate this is referred to as the Methusalah Technique)

(2) A high compound rate

(3) A combination of both (especially recommended by this author)

To be observed are the enormous benefits produced by relatively small gains in the annual earnings rate. This explains our attitude which while hopeful of achieving a striking margin of superiority over average investment results, nevertheless, regards every percentage point of investment return above average as having real meaning.

- “If you can’t stand the heat, stay out of the kitchen.” – Harry Truman

- Expectations Warren Buffett in 1965:

Nevertheless, you, as partners, are entitled to know my expectations, tenuous as they may be. I am hopeful that our longer term experience will unfold along the following basis:

(1) An overall gain from the Dow (including dividends, of course) averaging in the area of 7% per annum, exhibiting customarily wide amplitudes in achieving this average -- say, on the order or minus 40% to plus 50% at the extremes with the majority of years in the minus 10% to plus 20% range;

(2) An average advantage of ten percentage points per annum for BPL before allocation to the general partner - again with large amplitudes in the margin from perhaps 10 percentage points worse than the Dow in a bad year to 25 percentage points better when everything clicks; and

(3) The product of these two assumptions gives an average of 17% to BPL or about 14% to limited partners. This figure would vary enormously from year to year; the final amplitudes, of course, depending, on the interplay of the extremes hypothesized in (1) and (2).

- **Susie and I presently have an interest of $3,406,700 in BPL which represents virtually our entire net worth. So, we all continue to eat home cooking.**
- I am extremely fortunate in being able to spend the great majority of my time thinking about capital allocation
- **Our long-term goal is to achieve a ten-percentage point per annum advantage over the Dow Jones**
- When a controlling interest is held, we own a business rather than a stock, and a business valuation is appropriate
- **We are going to have loss years and are going to have years inferior to the Dow – no doubt about it**
- I ensure that I will not get blamed for the wrong reason (having losing years) but only for the right reason (doing poorer than the Dow)
- If you do not feel our standard (a minimum of a three-year test versus the Dow) is an applicable one, you should not be in the Partnership
- We diversify substantially less than most investment operations. We might invest up to 40% of our net worth in a single security under conditions coupling an extremely high probability that our facts and reasoning are correct with a very low probability that anything could drastically change the underlying value of the investment."
- We must work extremely hard to find just a very few attractive investment opportunities
- **Our summation on overdiversification: "You've got a harem of seventy girls; you don't get to know any of them very well." – Billy Rose**
- Our present setup unquestionably lets me devote a higher percentage of my time to thinking about the investment process than virtually anyone else in the money management business
- "I am not in the business of predicting general stock market or business fluctuations. If you think I can do this, or think it is essential to an investment program, you should not be in the partnership."
- We don't buy and sell stocks based upon what other people think the stock market is going to do (I never have an opinion) but rather upon what we think the company is going to do. The course of the stock market will determine, to a great degree, when we will be right, but the accuracy of our analysis of the company will largely determine whether we will be right. In other words, we tend to concentrate on what should happen, not when it should happen.

- The various businesses that the company operated were understandable and we could check out competitive strengths and weaknesses thoroughly with competitors, distributors, customers, suppliers, ex-employees, etc.
- **New ideas are continually measured against present ideas**
- I am willing to trade the paints of substantial short-term variance in exchange for maximization of long-term performance
- **"Buy the right company and the price will take care of itself."**
- I do not attempt to guess the action of the stock market and haven't the foggiest notion as to whether the Dow will be at 600,900 or 1200 a year from now
- My mentor Ben Graham used to say "Speculation is neither illegal, immoral nor fattening (financially)."
- **I make no effort to predict the course of general business or the stock market. Period.**
- Price is what you pay, value is what you get
- **Admitting mistakes: "Our poor experience this year is 100% my fault".**
- I want all partners to obtain exactly the same information
- About Berkshire Hathaway: "Its return on capital has not been sufficient to support the assets employed in the business."
- The three excellent businesses are all run by men over sixty who are largely responsible for building each operation from scratch
- **Over the long term, intrinsic value is virtually always reflected at some point in the market price**
- I think about them as businesses not 'stocks' and if the business does all right over the long term, so will the stock
- I make no forecasts regarding the bond market (or stock market)
- **My approach to bonds is pretty much the same as my approach to stocks. If I can't understand something, I tend to forget it**
- On the importance of capital allocation: It will continue to be the objective of management to improve the return on total capitalization (long-term debt + equity) as well as the return on equity capital)
- Vic is cut from the same cloth as Jack Ringwalt and Gene Abegg, with a talent for operating profitably accompanied by enthusiasm for his business. These three men have built their companies from scratch and, after selling their ownership for cash, retain every bit of the proprietary interest and pride that they have always had
- **In 1972, Buffett focused on Operating Earnings/Shareholders Equity and Book Value per share growth**
- **Management's objective is to achieve a return on capital over the long term which averages somewhat higher than that of American industry generally**
- Our equity investments are heavily concentrated in a few companies that are selected based on favorable economic characteristics, competent and honest management, and a purchase price attractive when measured against the yardstick of value to a private owner. When such criteria are maintained, we intend to hold for a long time.
  - With this approach, stock market fluctuations are of little importance to us – except as they may provide buying opportunities – but business performance is of major importance

- **We consider the return on shareholders’ equity to be a very important yardstick of economic performance**
- It is comforting to be in a business where some mistakes can be made and yet a quite satisfactory overall performance can be achieved. In a sense, this is the opposite case from our textile business where even very good management probably can average only modest results.
- We are very fortunate to have the group of managers that are associated with us
- Most of our large stock positions are going to be held for many years and the scorecard on our investment decisions will be provided by business results over that period, and not by prices on any given day
- **We select our market equity securities following 4 criteria:**
    - **We should understand the business**
    - **With favorable long-term prospects**
    - **Operated by honest and competent people**
    - **Available at a very attractive price**
- We do not attempt to predict how security markets will behave. Successfully forecasting short-term stock price movements is something we think neither we nor anyone else can do.
- About Berkshire Hathaway: we hope we don’t get into too many more businesses with such tough economic characteristics
- **It is easier to buy a good business than to create one**
- We are not concerned with whether the market quickly revalues upward securities that we believe are selling at bargain prices. We prefer just the opposite since, in most years, we expect to have funds available to be a net buyer of securities
- We continue to feel that the ratio of operating earnings (before securities gains or losses) to shareholders’ equity with all securities valued at cost is the most appropriate way to measure any single year’s operating performance
- **The primary test of managerial economic performance is the achievement of a high earnings rate on equity capital employed and not the achievement of consistent gains in earnings per share**
- **Turnarounds seldom turn**
- We would rather have some slack in the organization from time to time than keep everyone busy writing business on which we are going to lose money
- Our owners and managers both have very long-time horizons regarding this business and it is difficult to say anything new or meaningful each quarter about events of long-term significance
- If they focus their thinking and communications on short-term results or short-term market consequences they will, in large part, attract shareholders who focus on the same factors
- We continue to achieve a long-term return on equity that considerably exceeds the average of our yearly returns
- It is encouraging to realize that our record was achieved despite many mistakes
- **The combination of a very important and very hard-to-duplicate business advantage with extraordinary management whose skills in operations are matched by skills in capital allocation is phenomenal**
- **Forecasts may tell you a great deal about the forecasters, they tell you nothing about the future.**

Shareholder letters (1970-2023)

- **Selling the better assets and keeping your biggest losers is probably less painful in the short term, but is very unlikely to be a winner in the long term**
- The most attractive opportunities may present themselves at a time when credit is extremely expensive. At such time we want to have plenty of financial firepower.
- Though this fiduciary attitude was always dominant, his superb managerial skills enabled the Bank to regularly achieve the top position nationally in profitability
- While market values track business values quite well over long periods, in any given year the relationship can gyrate capriciously
- **Two characteristics of companies that are well-adapted to an inflationary environment:**
    - **The Ability to increase prices rather easily**
    - **The ability to accommodate large dollar volume increases**
- High returns on equity should retain much or all its earnings so that shareholders can earn premium returns on enhanced capital → **ROE > Cost of capital to create** value
- **"**Forecasts are dangerous particularly those about the future." – Sam Goldwyn
- In the 1981 shareholder letter, Warren Buffett mentioned for the first time: "Charlie and I work as partners in managing all controlled companies."
- **Operating earnings/equity capital = most important yardstick of single-year managerial performance**
- Accounting earnings can seriously misrepresent economic reality
- **It is our job to select businesses with economic characteristics that allow each dollar of retained earnings to be translated eventually into at least a dollar of market value**
- A too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favorable business developments
- Businesses in industries with both substantial over-capacity and a 'commodity' product are prime candidates for profit troubles
- **Our share issuances follow a simple basic rule: we will not issue shares unless we receive as much intrinsic business value as we give**
- Managers who want to expand their domain at the expense of owners might better consider a career in government
- **What Buffett prefers to acquire:**
    1. **Large purchases (at least $5 million of after-tax-earnings)**
    2. **Demonstrated consistent earnings power (future projections are of little interest to us, nor are "turn-around" situations**
    3. **Businesses earning good returns on equity while employing little or no debt**
    4. **Management in place (we can't supply it)**
    5. **Simple businesses (if there's lots of technology we won't understand it)**
    6. **An offering price (**

    We will never engage in unfriendly transactions.
- "We've always found a telephone call to be more productive than a half-day committee meeting."

- "If we can continue to attract managers with the qualities of Ben and Phil, you don't need to worry about Berkshire's future"

- **The major business principles Buffett uses to maintain the manager-owner relationship:**
    - Although our form is corporate, our attitude is partnership
    - At least four of the five, over 50% of the family net worth is represented by holdings of Berkshire. We eat our own cooking
    - Our long-term economic goal is to maximize the average annual rate of gain in intrinsic business value on a per-share basis
    - Our preference would be to reach this goal by directly owning a diversified group of businesses that generate cash and consistently earn above-average returns on capital
    - Consolidated reported earnings may reveal relatively little about our true economic performance.
    - Accounting consequences do not influence our operating capital-allocation decisions
    - We rarely use much debt, and when we do, we attempt to structure it on a long-term fixed-rate basis
    - A managerial "wish list" will not be filled at shareholder expense
    - We feel noble intentions should be checked periodically against results.
    - We will use common stock only when we receive as much in business value as we give
    - We have no interest at all in selling any good businesses that Berkshire owns and are very reluctant to sell sub-par businesses as long as we expect them to generate at least some cash and as long as we feel good about their managers and labor relations.
    - We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value
    - Good investment ideas are rare, valuable, and subject to competitive appropriation just as good product or business acquisition ideas are
- **Book value tells you what has been put in, intrinsic business value estimates what can be taken out**
- The record of Chuck Huggins at See's Candies:

52 – 53 Week Year Ended About December 31	Sales Revenues	Operating Profits After Taxes	Number of Pounds of Candy Sold	Number of Stores Open at Year End
1983 (53 Weeks)	$133,531,000	$13,699,000	24,651,000	207
1982	123,662,000	11,875,000	24,216,000	202
1981	112,578,000	10,779,000	24,052,000	199
1980	97,715,000	7,547,000	24,065,000	191
1979	87,314,000	6,330,000	23,985,000	188
1978	73,653,000	6,178,000	22,407,000	182
1977	62,886,000	6,154,000	20,921,000	179
1976	56,333,000	5,569,000	20,553,000	173
1975	50,492,000	5,132,000	19,134,000	172
1974	41,248,000	3,021,000	17,883,000	170
1973	35,050,000	1,940,000	17,813,000	169
1972	31,337,000	2,083,000	16,954,000	167

- **About Geico**: its superiority reflects the combination of a truly exceptional business idea and an exceptional management
- We try to attract investors who will understand our operations, attitudes and expectations
- **Businesses needing little in the way of tangible assets simply hurt the least in times of inflation**
- Asset-heavy businesses generally earn low rates of return – rates that often barely provide enough capital to fund the inflationary needs of the existing business, with nothing left over for real growth, distribution to owners, or for acquisition of new businesses.
- When companies with outstanding businesses and comfortable financial positions find their shares selling far below intrinsic value in the marketplace, no alternative action can benefit shareholders as surely as repurchases
- **The companies in which we have our largest investments have all engaged in significant stock repurchases at times when wide discrepancies existed between price and value**
- A manager who consistently turns his back on repurchases when these clearly are in the interests of owners, reveals more than he knows of his motivations
- We feel very comfortable owning interests in businesses such as these that offer excellent economics combined with shareholder-conscious management.
- The business achieves this success because it deserves this success
- The success of See's reflects the combination of an exceptional product and an expectation manager, Chuck Huggins.
- You as shareholders of Berkshire have benefited in enormous measure from the talents of GEICO's Jack Byrne, Bill Snyder, and Lou Simpson
- We buy marketable stocks for our insurance companies based upon the criteria we would apply in the purchase of an entire business
- Most businesses are unable to significantly improve their average returns on equity – even under inflationary conditions
- **We behave with Berkshire's money as we would with our own**
- **All earnings are not created equal**

- **You should wish your earnings to be reinvested if they can be expected to earn high returns, and you should wish them paid to you if low returns are the likely outcome of reinvestment**
- Outstanding businesses generate large amounts of excess cash
- We don't have to worry about quarterly or annual figures but, instead, can focus on whatever actions will maximize long-term value
- My preference is for a market price that consistently approximates business value
- **Ben Graham told a story 40 years ago that illustrates why investment professionals behave as they do:**
    - An oil prospector, moving to his heavenly reward, was met by St. Peter with bad news. "You're qualified for residence", said St. Peter, "but, as you can see, the compound reserved for oil men is packed. There's no way to squeeze you in." After thinking a moment, the prospector asked if he might say just four words to the present occupants. That seemed harmless to St. Peter, so the prospector cupped his hands and yelled, "Oil discovered in hell." Immediately the gate to the compound opened and all of the oil men marched out to head for the nether regions. Impressed, St. Peter invited the prospector to move in and make himself comfortable. The prospector paused. "No," he said, "I think I'll go along with the rest of the boys. There might be some truth to that rumor after all."
- Capital gains or losses in any given year are meaningless as a measure of how well we have done in the current year
- **Charlie Munger has always emphasized the study of mistakes rather than successes**
- Charlie likes to study errors and I have generated ample material for him, particularly in our textile and insurance businesses
- **July 1984: close of textile operation Berkshire Hathaway**
    - It was a bad business at a cheap valuation level
    - A textile company that allocates capital brilliantly within its industry is remarkable, but not a remarkable business
    - When a management with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the reputation of the business that remains intact
- **Warren Buffett focuses on the importance of management repeatedly**
- Ben Graham said that the key to successful investing is to purchase shares of good businesses when market prices are at a large discount from underlying business values
- **No matter how great the talent or effort is, some things just take time. You can't produce a baby in one month by getting nine women pregnant**
- Book value has served for more than a decade as a reasonable if somewhat conservative proxy for business value
- **Charlie Munger and I only have two jobs:**
    - **Attract and keep outstanding managers**
        - **They work because they love what they do and relish the thrill of outstanding performance. They unfailingly think like owners**
    - **Capital allocation**

- We intend to continue our practice of working only with people whom we like and admire.
- Our returns are certain to drop substantially because of our enlarged size
- Chuck rightfully measures his success by the satisfaction of our customers
- **The business described in this section can be characterized as having very strong market positions, very high returns on capital employed, and the best operating management → Buffett = quality investor!**
- Fechheimer is exactly the sort of business we like to buy. Its economic record is superb; its managers are talented, high-grade, and love what they do; and the Heldman family wanted to continue its financial interest in partnership with us.
- In effect, the good news in earnings follows the good news in principles by 6-12 months
- **We have no idea – and never have had – whether the market is going to go up, down, or sideways in the near- or intermediate-term future**
- **We simply attempt to be fearful when others are greedy and greedy when others are fearful**
- **Stocks can't outperform businesses indefinitely**
- We consider the owner earnings figure to be the relevant item for valuation purposes → reported earnings + depreciation, depletion, amortization, and certain other non-cash changes
- Managers and owners need to remember that accounting is but an aid to business thinking, never a substitute for it
- We own remarkable businesses, and they are run by even more remarkable managers
- **Experience, however, indicates that the best business returns are usually achieved by companies that are doing something quite similar today to what they were doing five or ten years ago.**
- A business that constantly encounters major change also encounters many chances for major error
- **Only 25 of the 1,000 companies met two tests of economic excellence - an average return on equity of over 20% in the ten years, 1977 through 1986, and no year worse than 15%. These business superstars were also stock market superstars: During the decade, 24 of the 25 outperformed the S&P 500.**
    - Most use very little leverage compared to their interest-paying capacity
    - Most sell non-sexy products or services in much the same manner as they did 10 years ago
- Our managers have produced extraordinary results by doing rather ordinary things – but doing them exceptionally well
- Our goal is to do what always makes sense for Berkshire's customers and employees
- In a commodity-like business, only a very low-cost operator or someone operating in a protected, and usually small niche can sustain high profitability levels
- **What we learn from history is that we do not learn from history**
- Whenever Charlie and I buy common stocks for Berkshire's insurance companies (leaving aside arbitrage purchases, discussed later) we approach the transaction as if we were buying into a private business.
- When investing, we view ourselves as a business analysts - not as market analysts, not as macroeconomic analysts, and not even as security analysts.

- **Story about Mr. Market:**

Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, *you're* the patsy."

Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising "Take two aspirins"?

The value of market esoterica to the consumer of investment advice is a different story. In my opinion, investment success will not be produced by arcane formulae, computer programs or signals flashed by the price behavior of stocks and markets. Rather an investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behavior from the super-contagious emotions that swirl about the marketplace. In my own efforts to stay insulated, I have found it highly useful to keep Ben's Mr. Market concept firmly in mind.

Following Ben's teachings, Charlie and I let our marketable equities tell us by their operating results - not by their daily, or even yearly, price quotations - whether our investments are successful. The market may ignore business success for a while, but eventually will confirm it. As Ben said: "In the short run, the market is a voting machine but in the long run it is a weighing machine." The speed at which a business's success is recognized, furthermore, is not that important as long as the company's intrinsic value is increasing at a satisfactory rate. In fact, delayed recognition can be an advantage: It may give us the chance to buy more of a good thing at a bargain price.

- We would rather achieve a return of X while associating with people whom we strongly like and admire than realize 110% of X by exchanging these relationships for uninteresting or unpleasant ones

- We try to buy not only good businesses but ones run by high-grade talented and likeable managers
- **Good business or investment decisions will eventually produce quite satisfactory economic results, with no aid from leverage**
- The major problem we face is a growing capital base
- We look for outstanding businesses run by people we like, admire, and trust
- Focus on good returns on invested capital
- About old managers: “Superb managers are too scarce a resource to be discarded simply because a cake gets crowded with candles”
- Because of the commodity characteristics of the industry, most insurers earn mediocre returns
- Charlie and I appreciate enormously the talent and integrity these managers bring to their businesses
- **They love their business, they think like owners, and they exclude integrity and ability**
- **When we own outstanding businesses with outstanding management, our favorite holding period is forever**
- **We will continue to concentrate our investments in a very few companies that we try to understand well**
- **We agree with Mae West: “Too much of a good thing can be wonderful”**
- About EMH: it’s an enormous advantage to have opponents who have been taught that it’s useless to even try
- Our goal is to attract long-term owners who, at the time of purchase, have no timetable or price target for sale but plan instead to stay with us indefinitely
- We will keep most of our major holdings, regardless of how they are priced relative to intrinsic business value
- From Berkshire’s present base of $4.9 billion in net worth, we will find it much more difficult to average 15% annual growth in book value than we did to average 23.8% from the $22 million we began with
- Imagine that Berkshire had only $1, which we put in a security that doubled by yearend and was then sold. Imagine further that we used the after-tax proceeds to repeat this process in each of the next 19 years, scoring a double each time. At the end of the 20 years, the 34% capital gains tax that we would have paid on the profits from each sale would have delivered about $13,000 to the government and we would be left with about $25,250. Not bad. If, however, we made a single fantastic investment that *itself* doubled 20 times during the 20 years, our dollar would grow to $1,048,576. Were we then to cash out, we would pay a 34% tax of roughly $356,500 and be left with about $692,000.
- **Most of these managers have no need to work for a living: they show up at the ballpark because they like to hit home runs**
- It is great fun to be in business with people you have long admired
- **What is best for their owners is not necessarily best for managers**
- **We are willing to look foolish if we don’t feel we have acted foolishly.**
- We continue to be blessed with extraordinary managers at our portfolio companies
- We only want to link up with people whom we like, admire, and trust

- In effect they are trusting us to be intelligent owners, thinking about tomorrow instead of today, just as we are trusting them to be intelligent managers, thinking about tomorrow as well as today
- **But as happens in Wall Street all too often, what the wise do in the beginning, fools do in the end**
- **Whenever an investment banker starts talking about EBITDA, zip up your wallet**
- My first mistake, of course, was in buying control of Berkshire. I was enticed to buy it because the price looked cheap. I call this the "cigar butt" approach to investing. Unless you're a liquidator, that kind of approach to buying businesses is foolish. Never is there just one cockroach in the kitchen. **Time is the friend of the wonderful business, the enemy of the mediocre.** You might think this principle is obvious, but I had to learn it the hard way. It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price
- Good jockeys will do well on good horses, but not on broken-down nags. I've said many times that **when a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact.** I just wish I hadn't been so energetic in creating examples
- Charlie and I have not learned how to solve difficult business problems. When we have learned to avoid them. It is because we concentrated on identifying one-foot hurdles that we could step over rather than because we acquired any ability to clear seven-footers
- I thought then that decent, intelligent, and experienced managers would automatically make rational business decisions. But I learned over time that isn't so.
- I made some expensive mistakes because I ignored the power of imperative
- **After some other mistakes, I learned to go into business only with people whom I like, trust, and admire**. As I noted before, this policy in itself will not ensure success. However, an owner – or investor- can accomplish wonders if he manages to associate himself with such people in business who possess decent economic characteristics. We've never succeeded in making a good deal with a bad person
- **Some of my worst mistakes were not publicly visible. These were stock and business purchases whose virtues I understood and yet didn't make**
- Our consistently conservative financial policies may appear to have been a mistake, but in my view were not.
    - We wouldn't have liked those 99:1 odds - and never will. A small chance of distress or disgrace cannot, in our view, be offset by a large chance of extra returns. If your actions are sensible, you are certain to get good results; in most such cases, leverage just moves things along faster. Charlie and I have never been in a big hurry: We enjoy the process far more than the proceeds - though we have learned to live with those also.
- **Berkshire's 26-year record is meaningless in forecasting future results**
- **Charlie and I would hope that Berkshire sells consistently at about intrinsic value**
- We own exceptional businesses that are worth considerably more than the values at which they are carried on our books
- **Our extraordinary returns flow from outstanding operating managers, not fortuitous industry economics**
- Charlie and I always have preferred a lumpy 15% return over a smooth 12%

- We have no interest in purchasing poorly-managed companies at a cheap price. Instead, our only interest is in buying into well-managed companies at a fair price
- Investors who expect to be ongoing buyers of investments throughout their lifetimes should adopt a similar attitude toward market fluctuations; instead many illogically become euphoric when stock prices rise and unhappy when they fall. They show no such confusion in their reaction to food prices: Knowing they are forever going to be buyers of food, they welcome falling prices and deplore price increases. (It's the seller of food who doesn't like declining prices.)
- **We will be buying businesses - or small parts of businesses, called stocks - year in, year out as long as I live (and longer, if Berkshire's directors attend the seances I have scheduled). Given these intentions, declining prices for businesses benefit us, and rising prices hurt us.**
- It's optimism that is the enemy of the rational buyer
- In a business selling a commodity-type product, it's impossible to be a lot smarter than your dumbest competitor
- When we buy a business, the sellers go on running it just as they did before the sale
- Berkshire is my first love and one that will never fade: At the Harvard Business School last year, a student asked me when I planned to retire and I replied, "About five to ten years after I die."
- For an increase in profits to be evaluated properly, it must be compared with the incremental capital investment required to produce it
- In our See's Purchase, Charlie and I had one important insight: we saw that the business had untapped pricing power
- These managers therefore truly stand in the shoes of owners
- Much of my enthusiasm for this purchase came from Frank's willingness to continue as CEO. Like most of our managers, he has no financial need to work but does so because he loves the game and likes to excel
- **The stock market serves as a relocation center at which money is moved from the active to the patient**
- We continually search for large businesses with understandable, enduring, and mouth-watering economics that are run by able and shareholder-oriented management
- Charlie and I are simply not smart enough, considering the large sums we work with, to get great results by adroitly buying and selling portions of far-from-great businesses. Nor do we think many others can achieve long-term investment success by flitting from flower to flower.
- **If my universe of business possibilities was limited, say, to private companies in Omaha, I would, first, try to assess the long-term economic characteristics of each business; second, assess the quality of the people in charge of running it; and, third, try to buy into a few of the best operations at a sensible price. I certainly would not wish to own an equal part of every business in town.**
- (Apple), or even brilliant merchandising (Wal-Mart). We will never develop the competence to spot such businesses early. Instead, I refer to business situations that Charlie and I can understand and that seem attractive - but in which we nevertheless end up sucking our thumbs rather than buying.

- There is no tougher job in corporate America than running an airline: Despite the huge amounts of equity capital that have been injected into it, the industry, in aggregate, has posted a net loss since its birth after Kitty Hawk.
- **We assembled a collection of exceptional businesses run by equally exceptional managers**
- The only value of stock forecasters is to make fortune tellers look good
- Short-term market forecasts are poison
- We're looking for companies with excellent economic characteristics and management that we like, trust, and admire
- I revised my strategy and tried to buy good businesses at fair prices rather than fair businesses at good prices
- When we allocate capital today, we are thinking about what will maximize look-through earnings 10 years from now
- **It's only when the tide goes out that you learn who's been swimming naked**
- **We reject more than 98% of the business we are offered**
- Charlie and I continue to like the insurance business, which we expect to be our main source of earnings for decades to come
- **How Warren Buffett selects companies**
    - **A business we can understand**
    - **With favorable long-term prospects**
    - **Operated by honest and competent people**
    - **Available at very attractive prices**
- Growth is always a component of value
- Growth benefits investors only when the business in point can invest at incremental returns that are enticing
- **Leaving the question of price aside, the best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return**
    - Unfortunately, these businesses are very hard to find. Most high-return businesses need relatively little capital
- We try to stick to businesses we believe we understand
- If a business is complex or subject to constant change, we're smart enough to predict future cash flows
- An investor needs to do very few things right if he or she avoids big mistakes
- **If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it?**
- "How many legs does a dog have if you call his tail a leg?" The answer: "Four, because calling a tail a leg does not make it a leg." – Abraham Lincoln
- We believe our owner-related policies – including the no-split policy – have helped us assemble a body of shareholders that is the best associated with any widely-held American corporation
- We continue to have an inversion to debt, particularly the short-term kind
- Coke went public in 1919 at $40 per share. By the end of 1920, the market had battered the stock down by more than 50% to $19.50. at yearend 1993, that single share, with dividends reinvested, was worth more than $2.1 million

- We look for good-sized operating businesses that possess economic characteristics ranging from good to terrific, run by managers whose performance ranges from terrific to terrific.
- We prefer to focus on the economic characteristics of the business that we wish to own and the personal characteristics of managers with whom we wish to associate
- **An investor should ordinarily hold a small piece of an outstanding business with the same tenacity that an owner would exhibit if he owned all of that business**
- In an investment lifetime, it's just too hard to make hundreds of smart decisions. Indeed, we'll now settle for one good idea a year.
- **The true investor welcomes volatility**
- After we buy a stock, we would not be disturbed if markets closed for a year or two. We don't need a daily quote on our 100% position in See's or H.H. Brown to validate our well-being.
- **As Peter Lynch says, stocks of companies selling commodity-like products should come with a warning label: "Competition may prove hazardous to human wealth"**
- Every investor will make mistakes. But by confining himself to a relatively few, easy-to-understand cases, a reasonably intelligent, informed, and diligent person can judge investment risks with a useful degree of accuracy
- By periodically investing in an index fund, the know-nothing investor can outperform most investment professionals. When "dumb" money acknowledges its limitations, it ceases to be dumb
- What a difference a pair of managers like this makes, even when their products have been around for 100 years
- When you combine ignorance and borrowed money, you can get some interesting consequences
- The more certain we feel about a business, the closer we are willing to play it
- **You can judge management by three yardsticks:**
    - **How well they run the business (look at the track record)**
    - **Seeing how they have allocated capital over time**
    - **How well they treat their owners**
- **Charlie and I have 2 jobs: identify and keep good managers interested and capital allocation**
- Treat your partner the way you want to be treated like yourself
- We think our stock is more likely to be rationally priced over time following the present policies than if we were to split in some major way
- Charlie and I don't read anything about what the economy is going to do or what the market is going to do
- At Berkshire, it makes no difference to us what accounting treatment we get on something. We are interested in the economics of a transaction
- The companies earn unusual returns on equity. They earn unusual returns on sale
- **Some companies are a lot easier to understand than others. And Charlie and I don't like difficult problems.**
- **You don't have to do exceptional things to get exceptional results**
- The big thing to do is avoid being wrong
- All we want to be is in businesses that we understand, run by people that we like, and priced attractively compared to the prospects

- If we're right about a business, it would be very foolish for us to not act on that because we thought something about what the market was going to do
- **The best thing that can happen to Berkshire over time, is to have markets that go down a tremendous amount**
    - **If you're going to be a buyer of groceries over time, you like grocery prices to go down**
    - **What we fear is an irrational bull market that's sustained for some long period**
    - **If you're right about the business, you'll end up doing fine**
- **Charlie and I are very risk-averse by nature**
- The value of every business is 100% sensitive to interest rates. The higher interest rates are, the less the present value is going to be
- If we have cash, it's because we haven't found anything intelligent to do with it that day
- We would never have an asset allocation meeting
- The best purchases are usually made when you must sell something to raise the money to get them because it just raises the bar a little bit that you jump over in the mental decisions
- I think you could be in someplace where the mail were delayed three weeks, and the quotations were delayed three weeks, and I think you could do just fine in investing
- Berkshire is incredibly decentralized
- One of the best things that could happen to shareholders is the market going down and you being able to buy good businesses at foolish prices
- **If you asked us whether Berkshire would be better off if the whole stock market were down 50% or where it is now, we would be better off if it was down 50%**
- **If we like something well enough to buy a put on it, we're probably better off buying the security itself**
- If you don't understand the businesses, then you're better off diversifying and widely diversifying
- When I ran the partnership, the limit I got towas about 40% in a single stock
- **Size is a disadvantage**
- We don't hedge currencies. We don't think our opinion on currencies is any good
- **But the economic value of any asset, essentially, is the present value, the appropriate interest rate, of all the future streams of cash going in or out of the business. And there are all kinds of businesses that Charlie and I don't think we have the faintest idea what that future stream will look like. And if we don't have the faintest idea what the future stream is going to look like, we don't have the faintest idea of what it's worth, now.**
- The numbers in any accounting report mean as to economic value
- **There is a huge difference in a business that grows and requires a lot of capital to do so, and a business that grows, and doesn't require capital**
- **About capital allocation:** And yet, probably relatively few chief executives are either trained for or are selected on, the basis of their ability to allocate capital. I mean, they get there through other routes. So, I've said it's like somebody playing the piano all their life, and then getting to Carnegie Hall and they hand him a violin. I mean, it is a different function than most — than the route — than the functions that exist along the routes to the CEO's job at most companies.

- The purchase at sensible prices of businesses that have good underlying economics and are run by honest and able people – is certain to produce reasonable success. We expect therefore to keep on doing well
- We will continue to ignore political and economic forecasts
- We usually made our best purchases when apprehensions about some macro events were at peak
- Ben Graham taught me that in investing it is not necessary to do extraordinary things to get extraordinary results
- Berkshire has many old managers over 65
- **Go to where the puck is going to be, not to where it is**
- The skill with which a company's managers allocate capital has an enormous impact on the enterprise's value
- **A really good business generates far more money than it can use internally**
- **In all instances, we pursue rationality**
- An insurance business is profitable over time if its cost of float is less than the cost the company would otherwise incur to obtain funds
- We like companies with enduring competitive advantages that are run by able and owner-oriented people
- It is folly to forego buying shares in an outstanding business whose long-term future is predictable, because of short-term worries about an economy or a stock market that we know to be unpredictable
- **A prime rule of investing: You don't have to make it back the way that you lost it**
- The ownership of Berkshire is stable, and it will be stable for a very long period
- Most managers, when using their own money, understand that money costs money
- Berkshire is one of a kind in terms of its capital strength in the business
- We're trying not to get into things we don't understand
- **One of the important things in stocks is that the stock doesn't know you own it**
- Derivatives often combine borrowed money with ignorance, and that is a rather dangerous combination
- The question always is what the average return on capital will be
- Most everything we say is no
- Because of the size, it's not easy to find things to do that make sense with lots of money
- We are trying to look at businesses in terms of what kind of cash can they produce
- **We're trying to find a business with a wide and long-lasting moat around it – protecting a terrific economic castle with an honest lord in charge of the castle**.
    - **All moats are subject to attack in a capitalistic system**
    - **We try to figure out what's going to keep the castle standing or cause it not to be standing 5, 10, 20 years from now**
- Value and growth are joined at the hip
- If you want to attract high-grade people, you probably ought to try and behave well yourself
- **And the best businesses, by definition, are going to be businesses that earn very high returns on capital employed over time. So, by nature, if we want to own good businesses, we're going to own things that have relatively little capital employed compared to our purchase price.**

- **About circle of competence**:

No, the first question is, can I understand it? And unless it's going to be in a business that I think I can understand, there's no sense looking at it.

There's no sense kidding myself into thinking that I'm going to understand some software company, or some biotech company, or something of the sort. What the hell am I going to know about it? I mean, you know, I can — so that's the first threshold question.

And then the second question is, you know, does it look like it has good economics? Has it earned high returns on capital? You know, does it strike me as something that's likely to do that? And then I sort of go from there.

How about you, Charlie?

CHARLIE MUNGER: Yeah. We tend to judge by the past record. By and large, if the thing has a lousy past record and a bright future, we're going to miss the opportunity. (Laughter and applause)

- We don't have any sector allocation theories whatsoever
- **Cash is always something good to have in case of a big market drop**
- Ben would not have disagreed with the proposition that if you can find a business with a high rate of return on capital you can keep using more capital on that —that's the best business in the world. And of course, he made most of his money out of GEICO, which was precisely that sort of business.
- **If you own a lousy business, you must sell it at some point. If you own a wonderful business, you know you don't want turnover.**
- Stay away when a company's accounting is confusing
- Accounting can offer you a lot of insight into the character of management
- The intelligent use of cash is something you look for in management
- **It earns good returns on invested capital, or we wouldn't be buying into it. We always look for good returns on capital.**
- There's no chance we'll be in businesses we don't understand, and I won't understand it
- **I've mainly learned by reading myself, so I don't think I have any original ideas.**
- **So, I think you can learn from other people. I think if you learn reasonably well from other people, you don't have to get any new ideas or do much on your own. You can just apply the best of what you see**
- Study history to become a great investor
- You can't make a good deal with a bad person
- I pay no attention to stock ratings. It doesn't mean anything. It's too bad they must put that there
- **We're trying to buy businesses we want to own forever. If you're thinking that way, you might as well see what it's been like to own them forever.**
- I see nothing wrong with a company having a negative shareholders' equity
- **Opportunity costs:** "Why would I rather have this over Coca-Cola?"
    - Compare everything with the best opportunity you have

- We want to be in the business that 10 years from now is earning a whole lot more money than it is now and that we will still feel good about the prospects of the business at that time
- **I want to build a collection of companies that have excellent economic characteristics and that are run by outstanding managers**
- Most deals do damage to the shareholders of the acquiring company
- **We believe a lot in reverse engineering**
- The constant challenge for Charlie and me is to allocate capital as we go along
- I have very close to 100% of my net worth in Berkshire
- I like to be associated with managers whom I would love to have as a sibling, in-law, or trustee of my will
- **Thinking back over the 1965-1995 period, I can't recall that a single key manager left Berkshire to join another employer**
- All our operations, including those whose earnings dropped last year, benefit from exceptionally talented and dedicated managers
- Many of our managers don't have to work for a living, but simply go out and perform every day for the same reason that wealthy golfers stay on the tour: they love what they're doing.
- A bad insurance contract is easy to enter and impossible to exit
- **In businesses, I look for economic castles protected by unbreachable "Moats".**
- Our basic goal as an owner is to behave with our managers as we like our owners to behave with us
- Our managers operate with extraordinary autonomy
- The key is not what it does to book value per share, but what it does to intrinsic value per share
- If you're repurchasing shares above a rationally calculated intrinsic value, you are harming your shareholders
- If it's a wonderful business, we probably come up with higher intrinsic value than most people do
- **We have enormous respect for the power of really outstanding business. And we recognize how scarce they are. And if management wishes to further intensify our ownership by repurchasing shares, we applaud.**
- One thing to remember: in the end, the owners of businesses, in aggregate, cannot come out any better than the businesses come out
- Float is money we hold that doesn't belong to us
- **We believe in trying to stick with businesses where we think we can see the future reasonably well.**
- **The main thing you can't find in annual reports is to learn about the person who's running the business and how they think about the business and what's going on in the business**
- I can't be an intelligent owner of a business unless I know what all other businesses in that industry are doing
- Berkshire is not a one-man show. It's a two-man show, in terms of capital allocation. But it's run by managers who are doing an outstanding job and who don't need any guidance from Charlie or me as they go along.

WARREN BUFFETT: Yeah. I would say that, on average, in a business we're really interested in, even though we know what to skip, to some extent, and what to read, I mean, it's going to be 45 minutes or an hour on a report.

And if there are six or eight companies in the industry, that's going to be six or eight hours, perhaps, and then their quarterlies and a lot of other —

I mean, it — the way you learn about businesses is by absorbing information about them, thinking, deciding what counts and what doesn't count, relating one thing to another. And, you know, that's the job.

- **The other thing we do besides allocating capital is to identify great managers. And hopefully, we make it attractive for them to stay and work for Berkshire.**
- A really great business does not require good management. I mean, that's a terrific business. And the poor business can only succeed, or even survive, with great management
- We look for people who know their businesses, love their businesses, love their shareholders, and want to treat them as partners
- **Only invest in companies led by managers with an outstanding track record**
- Diversification is a protection against ignorance
    - If you know how to analyze businesses and value businesses, it's crazy to own 50 stocks or 40 stocks, or 30 stocks, probably, because there aren't that many wonderful businesses that are understandable to a single human being
    - There is less risk in owning three easy-to-identify, wonderful businesses than there is in owning 50 well-known big businesses
    - If you find three wonderful businesses in your life, you'll get very rich. And if you understand them – bad things aren't going to happen to those three
- People don't like to sit around all day and do nothing
- **If you feel you must invest every day, you're going to make a lot of mistakes**
- He keeps learning. That's one of his tricks.
- A great company is one that's going to remain great for 30 years
- Phil has done awfully well by finding business he likes, and sticking with them, and not worrying too much about what they do day to day
- **People's investment would be more intelligent if stocks were quoted about once a year**
- We are not trying to predict markets. We never will try and predict markets. We're trying to find wonderful businesses
- I don't like a business that can do well for 300 years and then make one mistake and be behind.
- **There are two things that really count**
    - **Volatility is a good thing**
    - **Having decent returns on equity**
- **The best businesses require no capital. This means that if you double the size of the business, you don't need any more capital. And those companies are wonderful businesses. And we've got a few of those**
- Our managers expect to be running their businesses for a long, long time. They see themselves as part-owners of the business.
- **It isn't the learning that's so hard. It's the unlearning**

- I would recommend 2 books: "Common Stocks and Uncommon Profits" by Phil Fisher and "Path to Wealth Through Common Stocks"
- **"Warren talks about these discounted cash flows. I've never seen him do one." – Charlie Munger**
- Think of investing as owning a business and not buying something that wiggles around in price
- In investing, you don't have to do anything very smart. You just must avoid doing things that are ungodly dumb.
- **We just try to do things that make sense**
- We are interested in businesses that provide cash rather than use up cash
- All retail is competitive
- What counts at Berkshire is intrinsic value, not book value
- **We can't guarantee results. We do promise you, however, that virtually all the gains Berkshire makes will end up with shareholders. We are here to make money with you, not off you.**
- We seek 2 business characteristics: excellent business economics and an outstanding manager
- **Selling fine businesses on "scary" news is usually a bad decision**
- In insurance, virtually all surprises are unpleasant
- For Geico: "Our goal is not to widen our profit margin but rather the price advantage we offer customers."
- **In investing, inactivity strikes us as intelligent behavior**
- You simply want to acquire, at a sensible price, a business with excellent economies and able, honest management
- You can pay too much for even the best of businesses
- You only must evaluate the companies within your circle of competence
- **You only need 2 investment courses:**
    - **How to Value a Business**
    - **How to Think About Market Prices**
- **Your goal as an investor is to buy, at a rational price, an easily-understandable business whose earnings are virtually certain to be materially higher five, ten, and twenty years from now**.
- **If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes**
- It only takes 3 quality companies to invest in to be set for a lifetime.
- Companies are worth more money if interest rates fall and stocks rise
- **Everyone should read the talk of Charlie Munger's speech to the University of California Business School in 1994 before investing**
- The larger the amount of capital you work with, the more difficult the job is
- Volatility is a huge plus to the real investor
- The stock market is there to serve you, and not to instruct you.
- As an investor, you should love big swings because it means more things are going to get mispriced
- **<u>My idea of understanding a business is that you've a pretty good idea where it's going to be in 10 years</u>**
- Gambling may be illegal, but now you can do it through something called derivatives.
- I can hardly imagine a world where the wise people don't do a lot of reading

- We have no meetings. No committees. No slide presentation. I just read a lot
- **"Warren lives one of the most rational lives I've ever seen. And it's almost unbelievable." – Charlie Munger**
- All we do is try to figure out what businesses are going to be worth in ten or 20 years
- Investing is putting out money to get more money back later
- **Opportunity costs are a very useful filter for investing**
    - When someone shows me a business, the first thing I would think about is whether this would be a better investment than Coca-Cola
- **If interest rates go higher, the valuation goes down automatically**
- The biggest thing to do is understand the business
- The best thing to do is learn from other guys' mistakes
- "I think most people get very few, what I call, no-brainer opportunities, where it's just so damn obvious that this is going to work. And since they are very few and they may be separated by periods of years, I think people have to learn to have the courage and the intelligence to step up in a major way when those rare opportunities come by."- Charlie Munger
- **"We don't pay dividends because we think we can turn every dollar we retain into more than a dollar of market value."**
- Professional sellers of investment advice have an immense vested interest in believing that things that can't be true are true
- The name of the game is continuing to learn
- We don't care if the market closes for the next 5 years
- **Most of our managers do not need to work for a living. They run their businesses for the same reason Charlie, and I run Berkshire. They love doing it.**
- We let our managers run their own operations
- We look for **brains, energy, and integrity** in people that we work with. If you get that combination and you're in a decent business, you know, you can own the world
- Everything should be made as simple as possible, but not simpler
- **"Why risk losing what you need and have for what you don't need and don't have?"**
- Borrowed money usually leads to trouble. And it's not necessary.
- There aren't that many super businesses in the world.
- I think it's usually a bad mistake to sell your interest in wonderful businesses
- If you are in a business that you understand and you think it's an outstanding business, that the presumption should be that you just hold it and don't worry. And if it goes down 25% in price or 30% in price if you have more money available to buy more. And if you don't, you know, so what? Just look at the business and judge how it's doing.
- Opportunity cost is a huge filter in life
- We don't read brokerage reports or anything of the sort. There are other things to do with your time.
- **It's extremely difficult to get rich by owning businesses that earn a low return on equity**
- What truly counts are gains in per-share intrinsic business value
- We look for wonderful businesses secured at an attractive price

- **<u>If you plan to eat hamburgers / How to think about market fluctuations:</u>**

How We Think About Market Fluctuations

A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you are going to buy a car from time to time but are not an auto manufacturer, should you prefer higher or lower car prices? These questions, of course, answer themselves.

But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.

For shareholders of Berkshire who do not expect to sell, the choice is even clearer. To begin with, our owners are automatically saving even if they spend every dime they personally earn: Berkshire "saves" for them by retaining all earnings, thereafter using these savings to purchase businesses and securities. Clearly, the more cheaply we make these buys, the more profitable our owners' indirect savings program will be.

- Float is money we hold but don’t own. In an insurance operation, float arises because premiums are received before losses are paid.
- **There are 3 criteria for businesses:**
    - **They are understandable**
    - **Possess excellent economics**
    - **Run by outstanding managers**
- Though we don’t attempt to predict the movements of the stock market, we do try, in a very rough way, to value it
- I would say that if our predictions have been a little better than other people’s, it’s because we tried to make fewer of them
- Go where the competition is weak. If all our competitors believe the world is flat, that is a huge edge.
- I think Charlie told me that one of the things Darwin did was that whenever he found anything that contradicted some previous belief, he knew that he had to write it down almost immediately because he felt that the human mind was conditioned, so conditioned to reject contradictory evidence, that unless he got it down in black and white very quickly his mind would simply push it out of existence.
- **Time is the enemy of the poor business and the friend of the great business**
- Well, we do have filters, and sometimes those filters are very irritating to people who check in with us about businesses because we really can say in ten seconds or so “no” to 90 percent-plus of all the things that come in, simply because we have these filters. We have some filters regarding people, too.

- We want things that we can understand, which filters out a lot of things
- We want them to be good businesses, and we want the people to be people we're very comfortable with.
- The best thing to do is buy a stock that you don't ever want to sell
- We want to buy a business that we will be happy with if we own it for the rest of our lives.
- The best thing to do with a great business is just hang on for dear life
- **The secret of life is weak competition**
- But I think, in a sense, very low-interest rates are more of a long-term threat because if you get a portfolio chock full of, say, 4 percent mortgages or something of the sort, and then you had a huge move upward, that would be quite painful for some time, no matter what you've done in the way of hedging.
- **If you only had one silver bullet, which competitor would you fire it at?**
- **We don't care about ratings. We are not looking for opinions. We are looking for facts.**
- We love it when Coke repurchases shares and our interest goes up
- When we own stock in a wonderful business, we like the idea of repurchases
- I do read hundreds of annual reports every year
- **We think the quality of earnings by a company with significant stock option grants every year, is dramatically poorer than for one where that doesn't exist.**
- If I were teaching a course on investment, there would be simply one valuation study after another with the students, trying to identify the key variables in that particular business
- **You don't have to be right about every company. You must make a few good decisions in your lifetime.**
- Intrinsic value is the present value of the stream of cash that's going to be generated by any financial asset between now and doomsday
- We've got very good businesses, both directly and partially owned. And those businesses are going to do well for a long, long time.
- **We look for owners who love their business more than money**.
- **You've got integrity, intelligence, experience, and dedication. And that's what human enterprises need to run well.**
- The best business is one that gives you more and more money every year without putting up anything to get it, or very little. And we've got some businesses like that.
- And business is all about putting out money today to get back more money later
- We are looking for a business we can understand
- And then we try to decide whether we're getting in with some people that we feel comfortable being in with. And then we try to decide what's an appropriate price for what we've seen up to that point
- Knowing what you don't know is important.
- How to prepare for being a good investor? Read a lot and follow accounting courses.
- Underspend your income year after year
- It is useful to be reminded of your errors
- **"If you're quite rich, probably the idea of leaving your children enough so they can do anything, but not enough so they can do nothing, is not a bad formula." – Kau Graham**

- I would say that over the 33 or so-year span, our market price has tracked intrinsic value more closely
- I think we have a better class of shareholders than we would have if we were selling at $3 a share or $30 a share
- We've almost never made a big sector play
- **I don't know what Berkshire is selling for today and it really makes no difference. What does count is where it is 10 years from now.**
- **The difference between a good business and a bad business is usually the good business just throws up one easy decision after another, whereas the bad business gives you a horrible choice where the decision is hard to make and, is this going to work? And is it worth the money?**
- You don't get paid for the activity. You only get paid for being right.
- **If you talk to a bunch of people in an industry and you ask them what competitor they fear the most, and why they fear them, and all that sort of thing. You'll probably know more about the industry than most of the people in it when you get through**.
- We don't mind volatility. What we want is the favorable odds.
- **When we bought The Washington Post, it went down 50% in a matter of a few months. Best thing that could have happened.**
- The best way to look at any investment is: how will I feel if I own it forever and put all my family's net worth in it?
- **You talk about quality versus price. The investment game always involves considering both quality and price. And the trick is to get more quality than you're paying for in the price. It's just that simple.**
- If you're trying to have a perfect record in some simple things like honesty, you're well on the way to success in this world.
- When you get older, you have the reputation you deserve.
- The best way to get what you want is to deserve what you want
- About due diligence: they're ignoring what counts, which is evaluating the people they're getting in with, and evaluating the economics of the business. That's 99% of the deal.
- We entered 1999 with the best collection of businesses and managers in our history
- It's the per-share gain in intrinsic value that counts rather than the per-share gain in book value
- Combine a great idea with a great manager and you're certain to obtain a great result
- Charlie and I have the easy jobs at Berkshire: we do very little except allocate capital
- **If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it?** And if expenses shouldn't go into the calculation of earnings, where in the world should they go?
- We buy businesses and don't predict stock moves
- We look at individual businesses. And we don't think of stocks as little items that wiggle around on the paper and that have charts attached to them. We think of them as parts of businesses.
- Why do people, very bright people, risk losing something very important to them, to gain something totally unimportant?
- **Whenever a bright person, a really bright person, goes broke that has a lot of money, it's because of leverage**

- Investment is the process of putting out money today to get more money back at some point in the future
- We don't have a human relations department at Berkshire. We have no legal department. We have no investor relations. We have no public relations. We don't have any of that sort of thing.
- Big returns are easier with small amounts of money.
- **There's a lot of difference between making money and spotting a wonderful industry. You know, the two most important industries in the first half of this century in the United States – in the world, probably – were the auto industry and the airplane industry.**
- What we really want to buy into are wonderful businesses. And we want them to have management we like. And we want the price to be attractive.
- **If you found really good businesses – one with high returns on capital trading at cheap valuation levels that can reemploy a significant portion of their earnings, you know, you will make a lot of money if you're right in your assessment on that.**
- I have followed a policy of criticizing by practice and praising by name
- I've got 99.75% of my net worth in Berkshire. And, you know, I don't want any of it sold
- We have a wonderful bunch of businesses. And we have a float that keeps increasing and a pretty good record of doing well in marketable securities. None of that as gone away
- We don't really pay much attention to short-term economic developments in this country or currency rates or any other such things
- Charlie and I are no good on those macro questions
    - If we're right about the business, the macro factors aren't going to make any difference
- **We don't want people that are concerned about quarterly earnings. We don't want people who are concerned about stock splits.**
- We view change as more of a threat into the investment process than an opportunity
- **You can't constantly have corporate profits grow at a faster rate than GDP**
    - **GDP + Inflation + dividend = your return**
- The only money investors are going to make, in the long run, are what the businesses make. I mean, there is nothing added
- The most important thing is to always stay within your circle of competence
- Trying to dance in and out of the companies you really love, on a long-term basis, has not been a good idea for most investors.
- If you get into a wonderful business, the best thing to do is usually to stick with it.
- **Investing advice: start early and think for yourself.**
- **If I were getting out of school today and I had $10,000 to invest, I'd start with the As. And I probably would focus on smaller companies**.
- **Look for great management and economic moats**. That enables companies to raise prices and margins.
- **The moat and management are part of the valuation process**.
- Our game is to find a few intelligent things to do. It's not to stay up on every damn thing that's going on in the whole world.
- **I don't think you can get to be a good investor over a broad range without doing a massive amount of reading**.

- **“If you had a silver bullet and you could only put it through the head of one of your competitors, which one would it be and why**?”
- **“If you were going away for 10 years and you had to put all your money into one of your competitors. Which one would it be and why?”**
- If you want to get smart, the question you’ve got to keep asking is: Why? Why? Why?
- Over time, the performance of the stock must roughly match the performance of the business
- A very high percentage of our managers are independently wealthy, having made fortunes in the businesses that they run. They work neither because they need the money nor because they are contractually obligated to. They love what they do.
- Our best source of new customers is the happy ones we already have
- **Predicting the long-term economics of companies that operate in fast-changing industries is simply far beyond our perimeter**
- During the 1970s we searched for companies that were large repurchases of their shares. This often was a tipoff that the company was both undervalued and run by a shareholder-oriented management
- There is no distinction in our minds between growth and value. Every business we look at is a value proposition. The potential for growth and the likelihood of good economics being attached to that growth are part of the equation in evaluation.
- The first investment primer that I know of, and it was pretty good advice, was delivered in about 600 B.C. by Aesop. And Aesop, you’ll remember, said, “A bird in the hand is worth two in the bush.”
- **All intelligent investing is value investing. You must acquire more than you pay for, and that’s a value judgment.**
- **The investing where you find a few great companies and just sit on your ass**.
- About tech companies: we never found one where we think we know enough about what the business will look like in 10 years that we can make a rational decision as to how much we pay now for that business
- **The very best period was pre-the partnership days, because the amount I was working with was so small**
- We think of business risk in terms of what can happen – say 5, 10, 15 years from now – that will destroy, or modify, or reduce the economic strengths that we perceive currently exist in a business
- Every business that we look at we think of as an economic castle
- **We think in terms of the moat and the ability to keep its width and its impossibility of being crossed as the primary criterion of a great business**
- The danger of having a wonderful business is the temptation to go into less wonderful businesses
- **When a company with a wonderful business gets into a mediocre business, usually the reputation of the mediocre business prevails**
- Most of our decisions relate to things where we expect the future not to change much
- **We will never buy anything we don’t think we understand. And our definition of understanding is thinking that we have a reasonable probability of being able to assess where the business will be in 10 years**.
- We don’t know what currencies are going to do week-to-week or month-to-month or year-to-year. We focus on what’s knowable and what’s important

- I think if you have very unreasonable expectations of life, it makes life much more miserable. Much better to get your expectations within reason
- Philip Fisher says there are 2 reasons to sell a stock:
    - You've made a mistake
    - Something changes within the company
- Question to ask about management: does he love the business, or does he love the money?
- **We love buying stocks where we think the businesses are so solid, and have such economic advantage, that we can essentially ride with them forever**.
- We ignore book value. We look at what a company can earn on invested assets and what it can earn on incremental invested assets
- If you are evaluating a business year-to-year, the number one question you want to ask yourself is whether the competitive advantage has been made stronger and more durable.
- Subtract stock option compensation from reported income when evaluating companies
- The best business I've seen is the Harvard Business School. Because the more they increase the price, the more people want to get in.
- **Most fields that require heavy capital investment, don't turn out very well over time most of the times**
- **I've not earned any stars for my past economic predictions. And the good thing about my economic predictions, even if I do make them, is that I pay no attention to them myself.**
- **Economists aren't needed**.
- We not only look for a great economic castle, but we also look for a great knight in charge of that castle
- You can't avoid the wrong decisions. But if you recognize them promptly and do something about them, you can frequently turn the lemon into lemonade.
- My record is just terrible, in terms of predicting the inflation rate. So, it is not something that enters our decision-making
- **We don't want to buy into any organization that has no intellectual honesty. Because we don't believe in buying into organizations to change them**.
- In our last 36 years, Berkshire has never had a manager of a significant subsidiary voluntarily leave to join another business
- We have consistently stated that we would rather purchase businesses than stocks
- Nothing sedates rationality like large doses of effortless money
- Speculation is most dangerous when it looks easiest
- Charlie and I think it is both deceptive and dangerous for CEOs to predict growth rates for their companies
- My first preference has always been to buy outstanding operating businesses
- **Our worst mistakes are mistakes of omission. They don't show up in our figures. They show up in opportunity costs.**
- What we are looking for is an enduring competitive advantage. And then we want top-notch people running the place
- The biggest disadvantage we have is the size
    - It's harder to double the market value of a hundred-billion-dollar company than a $1 billion company

- I cringe when I hear people talk about, ‘Now it’s time to move from growth stocks to value stocks’, because it just doesn’t make any sense
- The best investment you can make, at an early age, is one in yourself
- We want companies with a durable competitive advantage, where we like the management, and where the price is sensible
- Stocks are a perfectly decent way to make 6 or 7 percent a year over the next 15 or 20 years
- If I were working with a small amount of money, the universe would be huge compared to the universe of possible ideas I work with now
- Wall Street makes money on the monetization of hope and greed
- No company should ever predict 15% annual growth
    - Very, very few large companies can compound their earnings at 15%. It just isn’t going to happen
- Every dollar you save in your twenties is worth $10 or $20 later
- I just keep accumulating knowledge. That’s one of the beauties of the business that Charlie and I are in, everything is cumulative.
- What you really want a course on investing to be is how to value a business
- **It’s very hard to evaluate the moat of a company when the company is active in an industry that rapidly changes**.
- **We regard volatility as a measure of risk to be “nuts”**
- **The opportunity comes to the prepared mind**
- **We’ve had relatively few big ideas, good ideas, over the year. If you took the top 15 out of Berkshire, most of you people wouldn’t be here.**
- Short selling ruined a lot of people
- I much prefer business investment to real estate investment
- I cannot promise results. But I can promise that your economic result from Berkshire will parallel ours during the period of your ownership
- All our managers are true owners
- Investors produce outstanding long-term results primarily by avoiding dumb decisions
- You only find out who is swimming naked when the tide goes out
- Ben Graham offered me a job and I took it on the spot. I didn’t ask what the salary was, or anything else
- Our favorite time to own a stock is forever
- I’ve never sold a share of Berkshire in my life
- We don’t want to focus on growth, we focus on intelligent growth.
- **The most important thing in investments is not having a high IQ. It’s about realism and discipline**.
- **The appropriate multiple for a business, relative to the S&P, will depend on what you expect to achieve in terms of returns on equity, and incremental returns on incremental equity, versus the S&P**.
- Talented people deliberately go into fraud because culture carries them there
- If management loves money, do not invest. If they love what they do, and all other things are right, then invest
- Most good businesses you can understand what they’re about in a very few minutes
- You’ve now set a foundation for going on and thinking rationally about investing. And there’s no reason why you need a high IQ to do that.

- You have to be realistic. You have to define your circle of competence accurately. You have to know what you don't know and not get enticed by it.
- **I think compensation plans lead to a lot of silly things**
- Interest rates are very important in determining the value of stocks
- A business is going to be worth what it produces in the way of cash over its lifetime
- All investing is, is laying out some money now to get more money back in the future
- It's very hard to predict when a bubble will burst
- **Stock options are both an expense and a dilution, and both factors should be considered in proper accounting**.
- Creative accounting is an absolute curse to a civilization.
- If you have doubts about something being in your circle of competence, it isn't.
- Every option has value
- **There seems to be an inverse relation between the amount of non-audit fees concerning market cap, an inverse correlation with that factors to the five-year compound growth of earnings, or the 5-year total return for the companies**.
- We like places that care about expenses
- **One of the reasons our audit costs are so low is we have this passion for keeping everything simple**
- We don't like complicated accounting. We do like things that produce cash.
- We continue to be blessed with an extraordinary group of managers, many of whom haven't the slightest financial need to work. In 38 years, we've never had a single CEO of a subsidiary elect to leave Berkshire to work elsewhere. Berkshire's CEOs are masters of their crafts and run their businesses as if they were their own.
- Financial derivatives are time bombs. Both for the parties that deal in them and the economic system. Derivatives are financial weapons of mass destruction.
- **There's nothing wrong with paying well for truly exceptional business performance**
- Three suggestions for investors:
    - Beware of companies displaying weak accounting
    - Unintelligible footnotes usually indicate untrustworthy management
    - Be suspicious of companies that trumpet earnings projections and growth expectations
- Charlie and I think of our shareholders as owner-operators, and of ourselves as managing partners
- We own some exceptional companies and exceptional managers
- Any option has value
- A low inflation period over any long period is better for investors
- If GDP grows at that rate, over time corporate profits will grow at – more or less, at that rate
- **Inflation is the one thing that, over a long period, can turn investors' results in aggregate, into a negative figure. And it's the investors' enemy.**
- When things go bad, all kinds of things correlate that no one ever dreamed of correlated
- **We are going to own these businesses forever, so we want some kind of competitive advantage – over many decades. We're not going to resell them. And we better have something that is not only good now but that's going to stay good.**
- The ability to take criticism constructively is very powerful.

- It makes more sense to buy a wonderful business at a fair price than a fair business at a wonderful price
- It's very hard to regain a lost competitive advantage
- **We're not happy when things we're buying go up in price. We want them to go down, and down, and down. And we'll keep buying more.**
- The rule at Berkshire is we praise by name and criticize by category
- Bill Gates has never taken an option at Microsoft and takes a very small salary. The only reason he takes the small salary is if there's a bad year at some time in the future, he wants to be able to take a cut in salary at the same time he's asking other people to cut back
- We love managers that have a passion for their businesses.
- "Do they love the money, or do they love the business?"
- Read everything, ignore management, wait for "the fat pitch"
- **The investment business is a business where knowledge cumulates. That's why we read as much as possible**.
- **In stocks, you only must be right on a very, very few things in your lifetime as long as you never make any big mistakes**.
- Investing is about self-discipline. Extreme self-discipline.
- The general system for money management requires people to pretend that they can do something that they can't do.
- Compound interest is like being at the top of a very large hill with wet snow and starting with a snowball and getting it rolling downhill.
- **I know people are going to be chewing Wrigley's chewing gum or eating Snickers bar 5, or 10, 15, or 20 years from now. But I don't have any idea how telecommunications shake out**.
- **Not thinking about deprecation as an expense strikes us as absolutely crazy**
    - Depreciation is real. And it's the worst kind of expense. It's reverse float. You lay out the money before you get revenue.
- EBITDA has been a term that has cost a lot of investors a lot of money.
- Charlie and I don't have the faintest idea what our cost of capital is at Berkshire, and we think the whole concept is a little crazy
- **Intelligent people make their decisions based on opportunity costs**
- We enjoy investing in companies that require little capital
- **The ideal business is one that earns very high returns on capital and could keep using lots of capital at those high returns. I mean that becomes a compounding machine**.
    - Most of the great businesses generate lots of money. They do not generate lots of opportunities to earn high returns on incremental capital
    - There are very few businesses like that
- We don't believe in making things more complex than needed
- **The intrinsic value of any financial asset, is the stream of cash that it'll produce between now and Judgement Day, discounted by an interest rate that equates between all the different possible assets**
- When we're looking at a business, we're looking at holding it forever
- We don't want to buy equities where our real expectancy is below 10%. Everything we do comes back to opportunity cost.
-

- **We look for companies**
    - With favorable economic characteristics
    - Run by talented and honest managers
    - Available at a sensible price
- All eleven directors of Berkshire purchased their holdings in the market just as you did.
- True independence – meaning the willingness to challenge a forceful CEO when something is wrong or foolish – is an enormously valuable trait in a director
- Float is wonderful if it doesn't come at a high price
- Our results have been exceptional for one reason: we have truly exceptional managers
- The critical variables are managerial brains, discipline, and integrity
- Charlie and I detest taking a small risk unless we feel we are being adequately compensated for doing so
- We applaud the idea of shareholders behaving like owners
- **We own fine businesses that will be able to price in inflationary terms and will not have the huge capital investment that is required to handle the larger dollar volume of sales.**
- **Inflation is the enemy of the investor, in terms of real returns**.
- We're looking for owners who join us in what we regard as kind of a lifelong investment
- "I would rather throw a viper down my shirtfront than hire a compensation consultant" – Charlie Munger
- It's very dangerous to project high growth rates
- Anytime you have incentives, with people who are quite smart, to mismark things, you're going to get mismarks
- **Read everything that's in sight**
- **I don't know anybody who is wise who doesn't read a lot**
- What we learn from history is that people don't learn from history
- In the end, we're going to make a lot of mistakes at Berkshire. And we've made them in the past, we'll make them in the future.
- We rub our noses in our mistakes in blowing opportunities, as we just did
- **Asset allocation models are "pure nonsense"**
- **We think the best way to minimize risk is to think.**
- If you accumulate a low-cost index fund over 10 years with fairly regular sums, I think you will probably do better than 90% of the people around who take up investing at a similar time
- We've been suspicious of companies that place a whole lot of emphasis on the price of their stock
- You'll never buy companies as cheap as stocks sometimes get
- Why not split the stock? We already have the best group of shareholders in the world.
- **Teledyne might have bought 90%, or something, of their stock back**
- **"Investing is most intelligent when it is most businesslike." – Warren Buffett**
- If you buy into Google, having read their owner's manual, you know, you will know the kind of people you're associating with. You'll know what they will do and won't do

- The average person buying IPOs is going to get creamed
- At any given point in history – including when stocks were their cheapest – you could find an equally impressive number of negative factors
- **The Dow went from 66 to 10,000-plus in the hundred years of the 20th century. And we had two world wars, and nuclear bombs, and flu epidemics, and you name it.**
- I know more about businesses than I knew 20 years ago or 40 years ago. I haven't really changed the principles. Investing is a game of continuing to learn.
- **Advice to young people: avoid credit card debt and hang out with people better than you**
- People underestimate how important habits are
- "The market can stay irrational longer than you can remain solvent." – John Maynard Keynes
- The only way a smart person who is disciplined can get in trouble is through leverage
- **Run your business as if it were the only asset your family will own over the next 100 years**
- **There are 3 reasons why investors underperform:**
    - High costs
    - Portfolio decision-making based on tips and fads
    - A start-and-stop approach to the market marked by untimely entries
- Investors should remember that excitement and expenses are their enemies
- "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally"
- Charlie and I love the idea of shareholders thinking and behaving like owners
- We have $44 billion in cash. So at the moment, we've got more money than brains
- **The most important factor of great managers is that they have a passion for their business**.
- Besides passion, we're looking for intelligence, energy, and integrity.
- Do they love the money, or do they love the business?
- I don't think any of the businesses that have sold to us over the years, which are run by the kind of people we like being associated with, would have wanted to sell to a hedge fund.
- The advice I would give is to read everything in sight
- It requires qualities of temperament way more than it requires qualities of intellect. I mean if you've got more than 125 IQ, you can throw away the rest of the points or give them to your other members of the family or do something because you don't need it in investing. But you do need a certain temperament that enables you to think for yourself.
- **It's not a good business when you have to have a prayer session before you raise your prices a penny.**
- **You can see bubbles develop and things, but you do not know how big the bubble will get. Predicting timing is … I've just never been successful at it, nor do I try to do it.**
- **Predicting what will happen is way easier than predicting when it will happen**
- People go crazy in economics, periodically, in all different kinds of ways
- It's very important to have the right incentives
- **Businesses don't meet expectations quarter after quarter and year after year. It just isn't like running businesses**.

- I think sensible people with the right temperaments and the right intelligence if they live long enough in our system, will get rich.
- Invest in yourself and ignore asset allocation
- Shareholders should take inflation into account when evaluating the performance of a business
- **The best business to have during inflation is one that retains its earning power in real dollars without commensurate investment to**
    - **So the best protection is a very good business that does not require big capital investments**
    - **The worst kind of business is where you must keep putting more and more money into a lousy business**
- We're not very good at forecasting markets
- **If the market gets cheaper, we will have more opportunities to do intelligent things with money.**
- We've never decided not to buy a business we liked because of a macro view
- **If you jump out of the window on the 42^{nd} floor, and you're still doing fine on the way down as you pass the 20^{th} – it doesn't mean you don't have a serious problem**
- We've been reasonably successful in creating a climate where the people who built the businesses continue to run them with the same enthusiasm and energy after they sell to us that they possessed early on
- The best investment, if you're talking about business, was getting Charlie as a Partner
- Getting the right people in your system can frequently be more important than anything else.
- The enemy of investment performance is activity
- Financial companies are more difficult to analyze than many companies
- I don't see gold as a store of value
- **"Buy a business that's so good that an idiot can run it because sooner or later one will." – Peter Lynch**
- We don't have any great record as macroeconomics predict. And I don't see any reason why we should really start now
- If you turn it over to Fund managers who think their job is to beat the S&P on a short-term basis, you're getting very short time horizons on huge amounts of money.
- Charlie and I try to put money in things that we understand. And when I mean understand, I mean that we think we know, in a reasonable way, what the economics will look like in 10 or 20 years from now
- A director getting $150,000 a year from a company, who needs it, is not an independent director
- We want people to behave as if they own the place
- **Not all investment decisions are going to work out perfectly. Some businesses are going to run into unexpected surprises.**
- We just throw some decisions into the 'too hard' pile and go to others
- Rub your noses in your mistakes
- There is a lot going on in the financial markets that I don't understand. And that doesn't mean I have to make a decision.
- **I've made plenty of wrong decisions. I'm going to make plenty more. That's just part of living.**

- When management proudly acquires another company for stock, the shareholders of the acquirer are concurrently selling part of their interest in everything they own
- Berkshire Hathaway has no exit strategy. We buy to keep.
- When a problem exists, whether in personnel or business operations, the time to act is now.
- **Every day, the competitive position of our businesses grows either weaker or stronger. If we are delighting customers, eliminating unnecessary costs, and improving our products and services, we gain strength.**
- **Companies should be widening the moat. Doing so is essential to have the kind of business we want a decade or two from now. We always hope to earn more money in the short term. But when short-term and long-term conflict, widening the moat must take precedence.**
- **Our managers focus on moat-widening, and they are brilliant at it. Quite simply, they are passionate about their businesses. Usually, they were running those long before we came along: our only function since has been to stay out of the way.**
- It's difficult to overpay the truly extraordinary CEO of a giant enterprise. But this species is rare.
- About Poor Charlie's Almenack: you'll never find a book with more useful ideas.
- We've never had a compensation consultant come into Berkshire
- **We've got three boxes at the company: in, out, and too hard. A lot of things end up in the 'too hard' pile, and it doesn't bother us. We try to stay within the circle of competence.**
- Our advantage? We know the edge of our competence better than most people do.
- What the wise man does in the beginning, the fool does in the end
- We continuously search for new ways to fail. I mean, we're not trying to limit ourselves.
- The best thing you can do is to reduce your expectations
- How to pick an investment manager:

When I wound up my own partnership in 1969, I told people to go to either Bill Ruane or Sandy Gottesman, and that would have been a very good decision, whichever place they went.

So, if you know enough about the person, know enough how they've done it in the past, know enough about their personality, honesty, and a whole bunch of things, I think that occasionally you can make a very intelligent choice in picking an investment manager.

But I don't think you can do it if you're sitting running a pension fund in some state and you have 50 people calling on you.

- **It's pretty hard in a declining business to buy things cheap enough to compensate for the decline**
- I read 5 newspapers every day. Charlie probably does about the same.
- If something is too hard to do, we look for something that isn't too hard to do
- You can become an outstanding businessperson by just studying successful ones in the past
- You do not have to have tons of good ideas in this business, you just have a good idea that's worth a ton, occasionally
- The right way to think about investing is to act thinking about your best opportunity cost

- The market is there to serve you and not to instruct you
- **Getting calls on Sunday**:

> I mentioned the LTCM crisis. We were getting calls on Sunday from people that had portfolios that were in trouble. Now, I will tell you that if — you can make a lot of money on Sunday.
>
> You may not get a chance very often, but any calls you get on Sunday you're probably going to make money on. (Laughter)
>
> Things are really screwed up if you're getting calls on Sunday. And all you have to do is make sure that you're the callee and not the caller — (laughs) on Sunday.

- **The real question of what Berkshire is going to be worth 10 years from now will depend on the earnings that we have developed and the quality of those earnings**
- It's very, very tough to make a living by selling short
- "If you want to get a reputation as a good businessman, be sure to get into a good business."
- Over time, markets will do extraordinary, even bizarre things.
- Temperament is also important. Independent thinking, emotional stability, and a keen understanding of both human and institutional behavior are vital to long-term investment success
- **Board members should be owner-oriented, business-savvy, interested and truly independent**
- We're careful with spending money
- Overall, Berkshire's business performance will determine the price of our stock
- We are going to own anything we buy forever
- **There is a study by David Yermack that companies with private jets underperform their peers by 4%**
- Gambling is a tax on ignorance
- Day trading is almost the same as gambling
- The whole idea that you own a business, is vital to the investment process
- We want to own great businesses. These earn a high return on capital employed for a very long period and are led by outstanding managers
- We try to look for easy problems because those are the ones we find we have the answers for
- **Derivatives are financial weapons of mass destruction**
- Very intelligent, educated people do things – that are irrational, and they do them en masse
- It's a different job to run a hundred billion than it is to run a hundred million
- **There is no way in the world somebody's going to beat the S&P by 10% a year with hundreds of billions of dollars. It isn't going to happen.**
- But simply buying an index fund for 20 years of equities or buying a 20-year bond, I would – it would buy the equities without doubt.
- **We don't have the faintest idea where the S&P will be in 3 years, or where the long-term bond will be in 3 years, but we do know which we would rather own on a 20-year basis.**
- You can always earn big returns with small amounts of money
- I remain very big on the idea of reading everything in sight.

- Volatility is not a measure of risk
- We read a lot. We read annual reports. We read about competitors. We read about the industries they're in
- 2 things matter: the quality of the business and the quality of management
- When a really good manager gets in a really lousy business, he'll ordinarily have a very imperfect record
- You don't have to have an opinion every day or every week or every month
- And if you find that everything is extremely cheap, like in '74, you should put every available dime into equities. And that's what we tried to do
- **The truth is, we rule out 90% of the things. And we may be wrong about a fair number that we're ruling out. The important thing is whether the ones we're ruling in we are right about**
- In the real world, your opportunity costs are what you want to make your decisions based on
- We have more money than ideas
- You're not restricted to living people when picking your mentors. Some of the very best people are dead
- **The best protection against inflation is your own earnings power. The second-best hedge is to own a wonderful business.**
- Inflation is bad news for investors under almost any circumstances.
- If you make yourself a very reliable person and stay reliable all your life, faithfully doing whatever you engage to do, it will be very hard for you to fail at anything you want.
- I decided I was going to give the best hour of the day to improving my own mind.
- I think big, big deals, on average, in America are contrary to the shareholders' interest.
- All our managers think like owners.
- We like businesses that require very little capital, because they're the only ones that have a chance of earning high returns on capital
- We don't have any opinion about commodity prices
- Just as all American came to believe that house prices would rise forever, the housing market crashed
- **Charlie and I are not big fans of resumes. Instead, we focus on brains, passion, and integrity.**
- We do not measure the progress of our investments by what their market prices do during any given year
- **"I should mention that people who expect to earn 10% annually from equities during this century – envisioning that 2% will come from dividends and 8% from price appreciation – are implicitly forecasting a level of about 24,000,000 on the Dow by 2100."**
- Three important lessons from The Intelligent Investor:
    - You think of stocks as parts of a business
    - The market should serve you and not instruct you
    - Always have a margin of safety
- If we buy a stock, we would be happy with that stock if they told us the market was going to close for a couple years.

- When you buy a farm, you wouldn't ask whether the yield was a little above expectations this year or down a little bit. You'd look at what the farm was going to produce over time
- **What we do is buy businesses with great managers in place. We've seen those people perform for, in many cases, decades**.
- If you want to buy or sell a stock, you should buy or sell the stock and not a put or call option.
- **Investment success depends on buying into the right businesses at the right price**
- We never want to trade away reputation for money
- Go to work for an organization or individual you admire
- Everything investing is, is laying out money now to get more money back later on
- We tend to prefer the business that drowns in cash
- You can't learn enough in life. The more you learn, the more you want to learn.
- We want to buy a business with a durable competitive advantage, and we want a management that we like and trust. And then we want a price that makes sense
- The best thing to do if you've got a wonderful private business is just keep it
- **Most opportunities are in small stocks. If you're working with small money.**
- Diversification is for the know-nothing investor
- Charlie and I have always been big fans of living within your income
- I never contacted any management. I never got a brokerage report. I never asked for anybody's opinion.
- If you talk to the management of almost every company, they'll say they think their stock is a wonderful buy
- I've made plenty of big investment mistakes. I've never made one, in my view, that would have been avoided by conventional due diligence.
- **If we can't decide in five minutes, we can't do it in five months**
- A lot depends on the character of the institution, which will probably be a reflection, to a great degree, of the type of CEO you have
- The most important investment you can make is one in yourself
- When you get into really complex instruments (CDOs) – I just don't know how to value them
- **The test whether to pay dividends is whether you can continue to create more than one dollar of value for every dollar you retain**
- If you read 20 books on a subject you've got an interest in, you're going to learn one hell of a lot. You don't know which one you're going to learn it in, though.
- Envy is the silliest of the 7 deadline sins.
- Fear led to business contraction, and that in turn led to even greater fear

- **Goals Berkshire Hathaway:**

In good years and bad, Charlie and I simply focus on four goals:

(1) maintaining Berkshire's Gibraltar-like financial position, which features huge amounts of excess liquidity, near-term obligations that are modest, and dozens of sources of earnings and cash;

(2) widening the "moats" around our operating businesses that give them durable competitive advantages;

(3) acquiring and developing new and varied streams of earnings;

(4) expanding and nurturing the cadre of outstanding operating managers who, over the years, have delivered Berkshire exceptional results.

- When investing, pessimism is your friend, euphoria the enemy
- "Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."
- Our long-avowed goal is to be the 'buyer of choice' for businesses – particularly those built and owned by families
- A promise is no better than the person or institution making it
- The financial crisis summarized: "borrows who shouldn't have borrowed being financed by lenders who shouldn't have lent"
- Investors should be skeptical of history-based models
- We never want to count on the kindness of strangers to meet tomorrow's obligations
- **In 2009, Warren Buffet wrote puts on the S&P500 which expired 10 and 20 years later**
- Negative yields on US treasury bills are really an extraordinary thing. I'm not sure you'll see that again in your lifetime.
- **I looked around at the casino and I saw all kinds of well-dressed people who had traveled thousands of miles to do something very dumb. And I thought this is a country where you're going to get very rich.**
- Higher mathematics can be dangerous for investing
- If you need to use a computer or a calculator to make the calculation, you shouldn't buy it
- When we buy and own a stock, we are not there to try and change people
- I would only give two courses. One would be how to value a business, and the second would be how to think about markets
- **You just must stay within your circle of competence**
- If you're in the investment business and you have an IQ of 150, sell 30 points to somebody else, cause you don't need it
- Read chapter 8 of 'The Intelligent Investor' which tells you how to think about the market. And it will do you better than learning what modern portfolio theory is all about
- Ignore the original cost when reviewing your portfolio
- **The sustainable competitive advantage of Berkshire is that we have a culture and a business model, which people are going to find very, very difficult to copy.**
- Our managers join our culture, our shareholders join our culture. It gets reinforced all the time

- The best protection against inflation is your own earnings power.
    - If you're the best teacher, the best surgeon, the best lawyer, … you will command a given part of other people's production of goods and services no matter what the currency is.
- We like to publish our report on a Friday afternoon, if possible, because we want people to have a whole weekend to read the report before the market opens
- Charlie and I think there is no other kind of investment than a value investment
- **"In the past, you have stated that management should be required, after several years, to do a post-mortem on acquisitions it makes."**
- We don't try to hold people by contracts. And it wouldn't work. Our model is a seamless web of trust that's deserved on both sides.
- I don't have the faintest idea what's going to happen in business or markets in the next year or two years
- Incentives are very important
- Regarding capital allocation, we'll just do things that make sense
- Don't try to time the market
- **The cheaper things get, the better I like buying them. Stocks are like hamburgers:**

But the cheaper things get, the better I like buying them. I mean, if I was buying hamburgers at McDonald's, you know, the other day for X, and they reduced the price to 90 percent of X tomorrow — not likely — but if they did, I'm happy.

I don't think about what I paid yesterday for the hamburger. I think I'm going to be buying hamburgers the rest of my life, you know? The cheaper they get, the better I like it.

I'm going to be buying investments the rest of my life. And I would much rather pay half of X than X.

And, the fact that I paid X yesterday doesn't bother me, if I get — as long as I know the values in the business.

So on a personal basis, I like lower prices. I realize that that is not the way all of you feel when you wake up in the morning and look at quotes.

- If you can find a good business that's not capital intensive, you're going to be better off than in a capital-intensive business over time

- **The ideal standard for measuring our yearly progress would be the change in Berkshire's per-share intrinsic value**
- **<u>The philosophy of Berkshire:</u>**
    - We avoid businesses whose futures we can't evaluate, no matter how exciting their products may be
    - We will never become dependent on the kindness of strangers.
    - We let our subsidiaries operate on their own, without our supervising and monitoring them to any degree
    - We make no attempt to woo Wall Street. Investors who buy and sell based upon media or analyst commentary are not for us
- We will very seldom develop a strong view on one currency versus another
- Berkshire's attitude generally is to find things that seem sensible to us and to concentrate, to some extent, in those matters

- Creating a good corporate culture is easier than changing a bad one
- **Getting good financial habits early in life is very important**
- Essentially, I will never sell a share of Berkshire
- I like people who parse through a long series of documents and find an error and rub my nose in it, particularly when it's your error
- There will always be investment opportunities when you're not working with large amounts of money
- Bad behavior is contagious
- Short-term stock moves aren't predictable and don't matter
- **Over the past 40 years, I only declared myself 5 times about the general level of the stock market**
- **Having high integrity is the safest way to make money.**
- What counts in the end is buying a good business at a decent price, and then forgetting about it for a long, long time. And some people can do it and some people can't.
- I've always regarded our portfolio as something what we thought would. Be worth more money later
- **Benjamin Graham taught me about how to value a company and Charlie taught me about sustainable competitive advantages**
- **The biggest thing is not how big your circle of competence is, but knowing where the perimeter is**
- Investing is all about avoiding the dumb things.
- If you have a business that has incredible pricing power, you're talking about a business that's a monopoly or a near monopoly.
- Find your passion, and then don't let anything stop you
- The fundamental algorithm of life: repeat what works
- Money will always flow toward opportunity
- Our final advantage is the hard-to-duplicate culture
- Winston Churchill about culture: "You shape your houses and then they shape you."
- We would rather be approximately right than precisely wrong
- Leverage is addictive
- "We can afford to lose money – even a lot of money. But we can't afford to lose reputation – even a shred of reputation."
- Culture, more than rule books, determines how an organization behaves
- The businesses you already own are so good it's not wise to part with them to get a business we don't own
- The next 100 years, you're going to have probably 15 or maybe 20 lousy years. But we will be so far ahead of where we are now that it will be unrecognizable.
- Continuous learning is absolutely required to have any significant achievement at all in the world
- When Berkshire declares a dividend, I predict that the stock will go down. Because it's an admission that a compounding machine has lost its ability to continue that course.

- **In general, there are 3 kinds of assets:**
  - Anything denominated in a currency: bonds, deposits in a bank, a money market fund, cash in your pocket, …
  - Investments you can buy that don't produce anything but that you hope someone will pay you more for later on: gold, crypto, …
  - Assets that you value based on what it will produce. Like equities. Those assets are appealing to me and Charlie
- Reduced expectations are the best defense for a happy life
- An intelligent person can make more money, over time, thinking about assets that produce something (generate cash) rather than speculating in commodities, or for that matter, fixed-dollar investments, but that's maybe my own bias
- The best investments are companies are the ones that require little capital investment to facilitate inflationary growth and that have strong positions that allow them to increase prices with inflation
- **The secret to success in a field is getting very interested in it**
- The main thing is getting the right person with the right values who interacts well with the managers and who knows how to allocate capital
- Growth is part of the investment equation
- **Don't use DCFs:**

CHARLIE MUNGER: Yeah, well, the interesting thing is that in our country, the business schools teach people to make these projections way in the future, and they program these computers to grind these projections out. And then they use them in their business decision making, et cetera, et cetera.

I've always regarded those projections as doing more harm than good. And Warren has never prepared one that I know of, and where an investment banker prepares one, we tend to throw them aside without reading them.

WARREN BUFFETT: We them upside down, actually.

CHARLIE MUNGER: What?

WARREN BUFFETT: We turn them upside down.

CHARLIE MUNGER: Yeah, yeah. And I think an enormous false precision gets into things when you program computers to make forward projections for a long period of time.

We make rough projections in our head all the time.

- You cannot judge an investor by what they do in 6 months or a year
- The primary job of the board of directors is to see that the right people are running the business
- We view these holdings as partnership interest in wonderful businesses, not as marketable securities to be bought or sold based on their near-term prospects
- **Daring to admit mistakes**: in tennis terms, this was a major unforced error by your chairman
- In the 2012 letters, Warren Buffett talked for the first time about share repurchases
- Charlie and I favor share repurchases when 2 conditions are met:
  - A company has ample funds to take care of the operational and liquidity needs of its business

  - The stock is selling at a material discount to the company's intrinsic business value
- **If you are going to be a net buyer of stocks in the future, either directly or indirectly (through your ownership of a company that is repurchasing shares), you are hurt when stocks rise. You benefit when stocks swoon**.
- We heard "cash is king" in late 2008, just when cash should have been deployed rather than held. Similarly, we heard "cash is trash" in the early 1980s just when fixed-dollar investments were at their most attractive level in memory.
- **"My successor will also be the 'chief risk officer'"- Warren Buffett**
- The beauty of Berkshire is that we created a system that doesn't require much control at headquarters
- Some companies are buying back shares regardless of price. That's ridiculous.
- Political decisions shouldn't affect investment decisions
- I would try to develop an audited record of performance as early as I could
- Take advantage when Mr. Market acts like a "psychotic drunk"
- We ignore headlines and macro factors
- There's so much nutcase thinking involving EBITDA. Earnings before what counts in costs.
- **It's very hard for an unproductive asset (like gold) to beat productive investments over any long period**
- Cash is our favorite medium of purchase just because we're going to generate a lot of it. And we hate giving out shares.
- We rarely try to change companies in our stock portfolio. We virtually never voted against management.
- The successor for Berkshire has got a culture as deeply embedded as I do
- **Generally speaking, it pays to stay away from declining businesses**
- **Stay away from IPOs and big commissions**
- When I say I understand a business, I mean I think I have a reasonable fix on what the earnings power and competitive position will look like in 5 or 10 years
- **We want our companies to run very autonomously**:

We want our businesses to run very autonomously, and we want the managers of those businesses to feel like they're their own business. That's enormously important at Berkshire.

So we don't tell the people at Clayton Homes to buy their carpet from Shaw or to buy their paint from Benjamin Moore. We just don't do that.

And you could say that's kind of silly, but it's — any gains we would get from doing that, by selling incremental units, I think would be far offset by the change in the feeling of the manager as to whether they're really running their own business.

- **We've always been more concerned about how our record is achieved than the precise record itself.**
- Berkshire is a negative art. We focus on not messing something up that's already good
- **"Prostitution would be a step up for compensation consultants." – Charlie Munger**
- Berkshire's record would have been terrible compared to the way it turned out if Warren hadn't kept learning and learning and learning all the way

- The continuous study of other people's disasters and other people's errors has helped us enormously, don't you think, Warren?
- **We buy barriers to entry, we don't build them**
- "Too much of a good thing can be wonderful." – Mae West
- Serious investors should understand the disparate nature of intangible assets: some truly deplete over time while others never lose value
- Companies with terrific economics can be measured by high earnings on unleveraged net tangible assets (> 25%)
- Of course, a business with terrific economics can be a bad investment if the price paid is excessive
- **I ask the managers of our subsidiaries to unendingly focus on moat-widening opportunities**
- **Disciplined repurchases are the surest way to use funds intelligently**
- The Berkshire spirit is to save money at every opportunity
- There's no question that we cannot do as well as we did in the past, and size is a factor. But we have a better system than most other people.
- **Interest rates are to asset prices, sort of like gravity is to the apple**.
- **We only buy from willing sellers**
- We've always tried to stay sane, and a lot of other people like to go crazy. That's a competitive advantage.
- **We very seldom buy businesses from people who want to retire**.
- **You write down the 25 things you want to achieve, choose the top 5, and then avoid the bottom 20**
- I cannot remember an important decision that Warren has made when he was tired
- About Henry Singleton from Teledyne: Henry is a manager that all investors, CEOs, would-be CEOs, and MBA students should study
- "In the end, he was 100% rational, and there are very few CEOs about whom I can make that statement"
- **The role of luck: I feel very lucky that the crash of 1929 came along. If I'd been born five years earlier, I probably would have made more money. But if I'd been born 10 or 15 years later, I would've made less money**
- You can't truly succeed in something you don't like doing
- It's the great danger of these bubbles, it starts out with skepticism ends up with your neighbor getting richer than you are because he went along and you didn't
- You must love something to do well at it
- We look at stocks exactly like we'd look at them if somebody came in and offered us the entire business
- People with very high IQs who are good at math naturally look for a system where they can just look at the math and know what security to buy. It's not that easy
- **You should own good businesses:**

My own guess is that people will do very well owning good businesses, if they don't pay too much for them, you know, whether they hold them for 10 years or 20 years or 30 years.

And if they try and time their purchases in some way by listening to forecasts about what's going to happen in business and try and buy and sell them, they're going to do very well for their broker and not so well for themselves.

- **<u>I've owned 400 or 500 names at one time or another, but most of the money has been made in about 10 of them</u>**
- Looking back when we've bought. Wonderful businesses that turned out to continue to be wonderful, we could've paid significantly more money, and they still would have been great business decisions. But you never know 100% for sure
- The game of life is a game of everlasting learning. At least it is if you want to win
- Knowing the edge of your own competency is very important
- **Everyone will see four or five times during their lifetimes, they will see incredible opportunities offered in equities.**
- **Options always have value. You always want to accept an option. You never want to give an option**
- When we see falling prices, we think it's an opportunity to buy, and it doesn't bother us
- Your children are learning about the world through you, and more through your actions than through your words
- We will always maintain supreme financial strength, operating with at least $20 billion of cash equivalents and never incurring material amounts of short-term obligations
- "The other guy is doing it, so we must as well." Spells trouble in any business, but in none more so that insurance
- "Investment is most intelligent when it is most businesslike." – Benjamin Graham
- **<u>The fundamentals of investing:</u>**

- You don't need to be an expert in order to achieve satisfactory investment returns. But if you aren't, you must recognize your limitations and follow a course certain to work reasonably well. Keep things simple and don't swing for the fences. When promised quick profits, respond with a quick "no."
- Focus on the future productivity of the asset you are considering. If you don't feel comfortable making a rough estimate of the asset's future earnings, just forget it and move on. No one has the ability to evaluate every investment possibility. But omniscience isn't necessary; you only need to understand the actions you undertake.
- If you instead focus on the prospective price change of a contemplated purchase, you are speculating. There is nothing improper about that. I know, however, that I am unable to speculate successfully, and I am skeptical of those who claim sustained success at doing so. Half of all coin-flippers will win their first toss; *none* of those winners has an expectation of profit if he continues to play the game. And the fact that a given asset has appreciated in the recent past is *never* a reason to buy it.
- With my two small investments, I thought *only* of what the properties would produce and cared not at all about their daily valuations. Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard. If you can enjoy Saturdays and Sundays without looking at stock prices, give it a try on weekdays.
- Forming macro opinions or listening to the macro or market predictions of others is a waste of time. Indeed, it is dangerous because it may blur your vision of the facts that are truly important. (When I hear TV commentators glibly opine on what the market will do next, I am reminded of Mickey Mantle's scathing comment: "You don't know how easy this game is until you get into that broadcasting booth.")
- My two purchases were made in 1986 and 1993. What the economy, interest rates, or the stock market might do in the years immediately following – 1987 and 1994 – was of no importance to me in making those investments. I can't remember what the headlines or pundits were saying at the time. Whatever the chatter, corn would keep growing in Nebraska and students would flock to NYU.

- You must recognize the perimeter of your circle of competence
- "A bull market is like sex. It feels best just before it ends." – Barton Biggs

- I don’t think we’ve ever had a policy that loved overstaffing
- We only believe in repurchasing shares when we can do so at a significant discount from intrinsic value
- There’s no question that size is an anchor to performance
- In terms of cost of capital, Charlie and I always think our cost of capital is what could be produced by our second-best idea. And that our best idea must exceed that
- We always have $20 billion at cash around Berkshire. We’ll never depend on the kindness of strangers
- “I think a lot of places work better when they create a culture of deserved trust. And that’s been our system. And some people regard that as a weakness.” – Warren Buffett
- **Our goal is to buy really good businesses. Businesses where we like the management and businesses that we think we can grow over time.**
- Owning a group of good businesses is not a terrible business plan
- Capitalism is for a great extent about capital allocation
- You want companies with a durable competitive advantage, pricing power, and strong organic growth
- Since change is inevitable, how well you adapt is terribly important
- **Our best bet, by far, in buying a business is to buy it from the family of a founder or the founder himself or herself**
- Be realistic in appraising your own talents and shortcomings
- **How to find great companies**:

WARREN BUFFETT: I’d probably do just what I did when I was 23. (Laughs)

The — you know, I would go in the investment business. And I would look at lots of companies and I would go and talk to lots of people, and I would try to learn from them what I could about different industries.

One thing I did when I was 23, if I got interested in the coal business, I would go out and see the CEOs of eight or ten coal companies. And the interesting thing was I never made appointments usually or anything, I just dropped in. But they —they felt a fellow from Omaha who looked like me couldn’t be too harmful.

So they’d always see me. And I would — I’d ask them a lot of questions, but one question I’d always ask them, two questions at the end, I would ask them if they had to put all of their money into any coal company except their own and go away for ten years and couldn’t change it, which one would it be and why?

And then I would say, after I got an answer to that, I would say, and if as part of that deal they had to sell short in the equivalent amount of money — in one coal company — which would it be and why?

- We try to buy wonderful businesses from people that care about where their business goes, and who generally want to keep running them
- You’re never going to have perfect behavior when a bunch of human beings live in a miasma of easy money
- To get a good spouse is to deserve one
- Habits are such a powerful force in everyone’s life, and certainly good financial habits

- My experience in business helps me as an investor and my investment experience has made me a better businessmen
- We are far more conservative in avoiding risk than most large insurers
- I have not made my last mistake in purchasing either businesses or stocks. Not everything works out as planned
- **In the world of business, bad news, often surfaces serially: You see a cockroach in your kitchen, and as the days go by, you meet his relatives**
- Stock prices will always be far more volatile than cash-equivalent holdings. Over the long term, however, currency-denominated instruments are riskier investments – far riskier investments – than widely diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions
- The use of borrowed money can destroy the decent returns that a lifelong owner of equities would otherwise enjoy
- **Market forecasters will fill your ear but will never fill your wallet**
- Berkshire will never engage in unfriendly takeovers
- Never underestimate the man who overestimates himself
- **"Cash, though, is to a business as oxygen is to an individual: never thought about when it is present, the only thing in mind when it is absent," – Warren Buffett**
- Although our form is corporate, our attitude is partnership
- **"I'm no genius, but I'm smart in spots and I stay around those spots." – Tom Watson (CEO IBM)**
- Efficiency is required over time in capitalism.
- Our culture is our most important competitive edge
- Culture must come from the top, it has to be consistent, it has to be part of written communications, it has to be – you know, has to be lived, and it has to be rewarded when followed, and punished when not
- **A company with an economist has 'one employee too many'**
- Any time we've issued shares, it's been a mistake. It dilutes existing shareholders
- We've not seen great successes by others who have been all involved in macro predictions
- We really believe in the power of incentives
    - When they get their ego involved, people do things that they shouldn't do. So, we try to eliminate incentives that would cause people to misbehave
- You really must understand human behavior if you're going to run a business
- I don't think that value investing will ever go out of style
- **Nobody buys a farm to make a lot of money next week or next month, or they buy, you know, an apartment house. they buy it based on what they think the long-term future is**
- We've seen a group of people whose IQs far surpassed those of people at Berkshire, and we've seen them self-destruct to make money they didn't need, when they were already rich. You know, I mean, that's madness
- Inflation is a gigantic corporate tapeworm
- Any business with heavy capital investment tends to be a poor business to be in inflation and often it's a poor business to be in generally
- **A brand is a wonderful thing to own during inflation**
- Hardly anything is more important than behaving well as you go through life
    - When you get old, you'll have the reputation you deserve

- The idea that you let other people do what they're best at and stick with what you're best at
- I tell my managers to think about our businesses as something they will own forever and that their priority should be to widen the moat and take care of their customers
- We believe in sort of hammering the same message out there repeatedly
- **What counts is where we're going to be in three years, five years, or 10 years from now**
- One of the most important things is to have good habits early on
- The chains of habits are too light to be felt until they're too heavy to be broken
- **I don't like multitasking. I see people doing 3 things at once, and I think, God, what a terrible way that is to think**
- Your main duty is to become as rational as you could be
- Berkshire is sort of a temple of rationality
- **"I had a great teacher, I had exceptional focus, and I had the right sort of emotional qualities that would help me become a good investor." – Warren Buffett**
- We will continue to operate with extreme – indeed, almost unheard of – decentralization at Berkshire
- For 240 years, it's been a terrible mistake to bet against America, and now is no time to start
- Disciplined risk evaluation is the daily focus of all our insurance managers
- Tony Nicely, who joined the company at 18 and completed 54 years of service in 2015, Tony became CEO in 1993, and since then the company has been flying. There is no better manager than Tony. In the 40 years that I've known him, every action has made great sense
    - **Look for companies whose managers started their careers at the company and worked there for multiple decades**
- Stock-based compensation is the most egregious example. The very name says it all: 'compensation'. If compensation isn't an expense, what is it?
- We make investment decisions solely based on what we think the best investment decisions is, not on the basis of how it will affect earnings in any quarter or in any year.
- The ideal business is one that takes no capital, but grows, and there are a few businesses like that, and we own some
- A significant portion of what you earn in insurance comes from investment of the float
- About cigarettes: 'it was a perfect business because it cost a penny to make, sell it for a dollar, it's addictive and there's fantastic brand loyalty.'
- **We want our managers to be thinking about how they can widen the moat every single day.**
- If you take care of your customer, the customer takes care of you.
- Size is the enemy of performance
- **We look for people who are business savvy, shareholder-oriented, and have a special interest in Berkshire. And we found people like that. They're not in it for the money**
- Can you imagine somebody going out and saying, we're going to buy a business, and we don't care what the price is? You know, we're going to spend $5 billion this year

buying a business, we don't care what the price is? That's what companies do when they don't attach a metric to what they're doing on their buybacks

- What you've got to do is be aversive to the standard stupidities. You just keep those out. You don't have to be smart.
- You don't need the IQ in the investment business that you need in certain activities in life. But you do have – you do have to have emotional control.
- Every decision that comes up, you know, we just try and figure out the most logical thing to do at that time
- Generally speaking, I think the leanly-staffed companies do better at everything than the ones that are overstaffed
- You get what you reward for. So, if you have a dumb incentive system, you get dumb outcomes
- **Over time, stock prices gravitate toward intrinsic value**
- Fear is your friend as an investor, but personal fear is your enemy.
- About share repurchases: 'What is smart at one price is stupid at another'
- We have some terrific managers running disciplined operations that in most cases possess hard-to-replicate business models
- We look for companies with high earnings on unleveraged net tangible assets. Some exceed more than 100% and most businesses are generating good returns in the area of 12-20%
- When a company grows and outstanding shares shrink, good things happen for shareholders
- **"Fees never sleep." – Gordon Gekko**
- **There are 3 connected realities that cause investing success to breed failure:**
    - A good record quickly attracts a torrent of money
    - Huge sums invariable act as an anchor on investment performance
    - Most managers will nevertheless seek new money because of their personal equation
- **When a person with money meets a person with experience, the one with experience ends up with the money and the one with money leaves with experience**
- Quarterly results mean nothing. Over time, what counts is whether we're building the value of the businesses that we own
- "An ounce of prevention is worth a pound of cure." – Benjamin Franklin
- If you've got a very good business, you're going to have plenty of competitors that are going to try and take it away from you
- **A life properly lived is just learn, learn, learn**
- There's nothing like the pain of being in a louse business to make you appreciate a good one
- The intrinsic value pure definition would be the cash to be generated between now and Judgment Day, discounted at an interest rate that seems appropriate at the time.
- I think we have one advantage. A lot of other people are trying to be brilliant. And we're just trying to stay rational.
- **We love high return-on-assets, very light-capital-intensive businesses**
- "If the board hires a compensation consultant after I go, I will come back." – Warren Buffett
- Most financial advisors don't deserve their fees

- The investment world is a morass of wrong incentives, crazy reporting, and a fair amount of delusion
- About Apple: I don't know tech, but I know consumer behavior
- The most important thing in valuation is future interest rates
- **"If you had to go away for 10 years on a desert island and you had to put all of your family's money into one of your competitors, which one would it be and why?"**
- **"If you had to sell short one of them. Competitors for 10 years, all their family money. Which one would you pick?"**
- An important thing is to kill your old ideas.
- In respect to EBITDA, depreciation is an expense. And it's the worst kind of an expense
- The key qualities we seek are durable competitive strengths: able and high-grade management; good returns on the net tangible assets required to operate the business; opportunities for internal growth at attractive returns; and finally, a sensible purchase price
- Our aversion to leverage has dampened our returns over the years. But Charlie and I sleep well. Both of us believe it is an instance to risk what you have and need to obtain what you don't need
- Betting on people can sometimes be more certain than betting on physical assets
- Charlie and I never will operate at Berkshire in a manner that depends on the kindness of strangers
- Charlie and I view the marketable common stocks that Berkshire owns as interests in. businesses, not as ticker symbols to be bought or sold based on their 'chart' patterns
- **Why you shouldn't use leverage:**

Berkshire, itself, provides some vivid examples of how price randomness in the short term can obscure long-term growth in value. For the last 53 years, the company has built value by reinvesting its earnings and letting compound interest work its magic. Year by year, we have moved forward. Yet Berkshire shares have suffered four truly major dips. Here are the gory details:

Period	High	Low	Percentage Decrease
March 1973-January 1975	93	38	(59.1%)
10/2/87-10/27/87	4,250	2,675	(37.1%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

This table offers the strongest argument I can muster against ever using borrowed money to own stocks. There is simply no telling how far stocks can fall in a short period. Even if your borrowings are small and your positions aren't immediately threatened by the plunging market, your mind may well become rattled by scary headlines and breathless commentary. And an unsettled mind will not make good decisions.

- **Performance comes, performance goes. Fees never falter**
- If you invested $10,000 in the S&P 500 in 1942, you'd have $51 million today and you wouldn't have had to do anything.
  - If you had chosen to buy gold instead, you'd have approximately $400,000 today
- Warren is very good at doing nothing. He sits around reading and thinking.
- We're going to make mistakes. I will guarantee you that we will get some unpleasant news at Berkshire. I don't know what it'll be, the most important thing is we do something about it.

- There is no exact formula to determine the intrinsic value of a company. If you want one, you should go to business schools. They'll give you lots of formulas that don't work.
- **We always prefer businesses that earn terrific returns on capital**
- We still love a business that takes very little capital and earns high returns, and continues to grow, and requires very little incremental value.
- Charlie made a profession of studying businesses where the owners could sit around and drink all day.
- It's very difficult in economics to measure the impact of single variables
- I think people make more money if they're very narrowly specialized
- We want to own products where people feel like kissing you
- What we do is not a complicated business. It's got to be a disciplined business, but it does not require a super IQ or anything of the sort
- If you're going to live a long time, you must keep learning
- If you give a person a fish you feed them for a day, but if you teach them to fish, you feed them for a lifetime
- **Our prime goal in the deployment of your capital: to buy ably-managed businesses that possess favorable and durable economic characteristics. We also need to make these purchases at sensible prices.**
- Rational people don't risk what they have and need for what they don't have and don't need
- Over time, investment performance converges with business performance
- We have no ambition in any given quarter to spend a dime unless we think you're going to be better off for us having done so
- **The nature of things is that things get overpriced and they get underpriced. And if it's underpriced we'll take advantage of it**
- Our managers, to a great degree, own their businesses. And we want them to feel a sense of ownership
- Mr. Bezos often said: 'your margin is my opportunity'
- You can turn any investment into a bad deal by paying too much. What you can't do is turn any investment into a good deal by paying little, which is sort of how I started out in this world
- Charlie and I have seen some more high-IQ people – extraordinarily high-IQ people – destroyed by leverage
- It's enormously important that you don't take people that have expectations of you that you can't meet.
- The older you get, the better you understand human behavior.
- **We learned an enormous amount just from studying the lives of other people**
- **Figure out what works and do it.**
- Try to have a big. Circle of competence but be realistic about its perimeter
- Don't worry about what the next quarter's earnings are going to be
- We make our own calculation of risk versus reward in every transaction we do
- "I'm betting all my wealth on the survival of Berkshire's culture."
- Having the right partners in life is enormously important
- It's easy to make 50% on a million, but much more difficult on larger amounts

Articles/Talks/Interviews of Warren Buffett

- When I was 21 years old, I showed net assets of $19,737, of which $13,125 was GEICO stock
- Stocks, like bonds, do poorly in an inflationary environment
- Five ways to improve earnings
    - An increase in turnover
    - Cheaper leverage
    - More leverage
    - Lower income taxes
    - Wider operating margins on sales
- Forecasters usually tell us more about the forecaster than of the future
- By far the most important quality is not how much IQ you've got. IQ is not a scarce factor. You need a reasonable amount of intelligence, but the temperament is 90% of it
- **The ability to raise prices makes a great business (pricing power)**
- You shouldn't buy a stock for any other reason than the fact that you think it's selling for less than it's worth
- Nobody cares what kind of steel goes into a car (no pricing power)
- "All we ever want to know is where we're going to die, so we'll never go there."
- **"I am buying 100 shares of Coca-Cola stock because…" And if you can't write an intelligent answer to this question, don't do it.**
- Life tends to snap you at your weakest link (alcohol, gambling, …)
- You really don't need leverage in this world much. If you're smart, you're going to make a lot of money without borrowing.
- We solely buy businesses I can understand
- **If we can do one intelligent thing a year, we are ecstatic**
- **You only need a few very good ideas in your lifetime**
- We don't pay any attention to investment bankers or brokers. It's not an efficient use of our time. We read hundreds and hundreds of annual reports every year
- The most important thing in evaluating businesses is figuring out how big the moat is around the business
- **You know Wall Street is a place that people drive to in a Rolls Royce to get advice from people who ride to work on the subway**
- Stay away from declining businesses
- **I read hundreds of annual reports every year. I don't talk to any brokers – I don't want to talk to brokers. People are not going to give you great ideas**
- Don't read broker reports. You should be very careful with those
- The only rule the managers have is to think like owners
- **Extreme leverage has been, generally speaking, a net minus**
- Good profits simply are not inconsistent with good behavior
- **Go work for someone you admire**
- **"I probably read at least 6 hours a day, maybe more. And I spend an hour or two on the telephone."**
- The quality that I value most in any leader is integrity
- If you are rich, you should leave your kids or give them enough so they can do anything, but not enough so they can do nothing

- We basically like to buy into businesses where people have already succeeded and then keep them on
- How I got here it's not IQ. The big thing is rationality
- What you want to do is attract shareholders that are very much like you, with the same time horizons and expectations. That's why we won't be splitting the Berskhire stock.
- **<u>I look for 3 things in hiring people: integrity, intelligence, and energy</u>.**
- **Time is the friend of the wonderful business, and the enemy of the louse one.**
  - If you are in a lousy business for a long time, you will get a lousy result even if you buy it cheaply. If you are in a wonderful business for a long time, even if you pay a little bit too much, you will get a wonderful result if you stay in a long time
- If I ever write a book, it will be called <u>Why Smart People Do Dumb Things</u>.
- I want a simple business, easy to understand, great economics, honest and able management, and then I can see about in a general way where they will be ten years from now.
- The biggest mistakes have not been mistakes of commission, but of omissions. They are where we knew enough about the business to do something and where, for one reason or another, sat they're sucking out thumbs instead of doing something.
- The best way to think about investments is to be in a room with no one else and just think
- Wall Street makes its money on activity. You make your money on inactivity.
- **We don't care if a company is a large cap, small cap, middle cap, or micro-cap. It doesn't make any difference. The only questions that matter to us:**
  - **Do we understand the business**
  - **Do we like the people running it**
  - **And does it sell for an attractive price**
- The stock doesn't know you own it
- **Most people are probably more likely to be a net buyer of stocks over the next ten years than they are a net seller, so everyone of you should prefer lower prices. If you are a net eater of hamburgers over the next 10 years, you want hamburgers to go down unless you are a cattle producer.**
- Interest rates act on financial valuations the way gravity acts on matter: The higher the rate, the greater the downward pull
- **Investors cannot get anything out of their business except what the business earns**
- The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage
- Go to work for whomever you admire the most
- You should only expect to make money in things you can understand
- Defining your circle of competence is the most important aspect of investing. It's not how large your circle is, you don't have to be an expert on everything, but knowing where the perimeter of that circle of what you know and what you don't know is
- The biggest mistakes I've made by far are mistakes of omissions and not commission
- What should you be doing in running your business? Just what you always do: widen the moat, build enduring competitive advantage, delight your customers, and relentlessly fight costs

- Charles Darwin used to say that whenever he ran into something that contradicted a conclusion he cherished, he was obliged to write the new finding down within 30 minutes. Otherwise, his mind would work to reject the discordant information
- **Companies tell their shareholders that options do more to attract retain and motivate employees than does cash. I believe that's often true. These companies should keep issuing options. But they also should account for this expense just like any other**
- Investing is great because you're always building a database. Every year, you're adding a little bit more (new industries) and there's not that much leakage on the other end.
- **We hate EBITDA. Depreciation is the worst kind of expense.**
- Successful investing requires inactivity
- **The most important chapters of the book The Intelligent Investor are Chapters 8 and 20**
- There are very few mistakes a smart guy can make, one of which is leverage
- An important thing in life is whom do you have as your heroes
- You'll be your children's hero. Make sure you deserve to be their hero
- One of the secrets in life is weak competition
- **Model to analyze a company**
    - Do I understand the business?
    - What are the competitive advantages?
    - Is the industry going to change?
- We look for the absence of change. Change is the enemy of investments. For example, I have a list of over 2000 companies that made automobiles, now the last two, GM and Ford, are in trouble
- I always try to use probabilistic thinking
- One thing that continually amazes me is how much discipline Warren has in never letting himself get excited about a deal that he doesn't understand
- **<u>How Warren Buffett spend his day:</u>**

  How Warren spends his day:
  - Wakes up at 6:45, reads paper at home, often doesn't make it into the office until after the market opens
  - No set schedule, WB hates having a full calendar
  - Always takes reading material home
  - Spends 80% of the day reading, 20% talking on the phone (he then said it might be more like 90/10)
  - Phone conversations are generally short

- Investment process

Investment process:

- In the past some things were cheap enough WB could decide in a day (this was somewhat a function of a time period where companies would sell at 2-3x earnings)
- Decisions should be obvious to onlookers. You should be able to explain why you bought something in a paragraph.
- "I don't do DCF" (WB says he does a rough approximation in his mind)
- Finding ideas is a function of cumulative knowledge over time. Something just comes along – usually an event takes place, like a good management team screwing up – that creates the opportunity (WB seems to imply here that his reading isn't specifically targeted at finding ideas, but rather that ideas jump out at him as a natural consequence of vociferous reading)
- You must be patient…good ideas tend to be clustered together, and may not come at even time intervals…when you don't find anything for a while it can be irritating
- WB isn't bothered by missing something outside his circle of competence
- Missing things inside the circle is nerve racking…examples include WMT, FNM

- Advice for new investors

Advice for new investors:

- Don't worry too much about your mistakes
- Don't learn too much from your mistakes
  - Don't become Mark Twain's frog that never sat again on a stove after being burned
  - BUT…never be willing to play a "fatal" game
- Don't confuse social progress with the chance to make money – look at airlines and autos for examples
- Law degree is not essential, but good if you think it will help in your specific career
- Learning to think like a lawyer is a valuable trait
- Allocate even more of your day to reading than he does
- Read lots of K's and Q's – there are no good substitutes for these
- Read every page
- Ask business managers the following question: "If you could buy the stock of one of your competitors, which one would you buy? If you could short, which one would you short?"
- Always read source (primary) data rather than secondary data
- If you are interested in one company, get reports for competitors. "You must act like you are actually going into that business, and if you were, you'd want to know what your competitors were doing."

- Why more people don't follow his advice

Why more people don't follow his advice:

- The advice doesn't promise enough…it's not a "get rich quick" scheme, which is what a lot of other philosophies promise
- WB mentioned that when he was really young he started investing using technical analysis, but found that he never could make any money with it
- "I realized that technical analysis didn't work when I turned the chart upside down and didn't get a different answer."
- After seeing that charting didn't work, he switched to Graham…it made sense and it worked

- **<u>Human misjudgment</u>**

Avoiding human misjudgment:

- WB said repeatedly that it doesn't take above a 125 IQ to do this…in fact, IQ over this amount is pretty much wasted. It's not really about IQ.
- Staying within circle of competence is paramount
- When you are within the circle, keep these things in mind:
  - Don't get in a hurry
  - You are better off not talking to others
  - Just keep looking until you find something (don't give up)
  - Good ideas come in clumps – by time, by sector, by asset class

- **<u>Discount rates used for valuation</u>**

Discount rates used for valuation:

- Use a long term normalized interest rate for Treasuries…e.g. 6%
- Don't use different discount rates for different businesses…it doesn't really matter what rate you use as long as you are being intellectually honest and conservative about future cash flows.
- Only want one variable to compare in order to assess the viability of an investment – price versus value. If we allowed discount rates to change it would lead to more than one variable.
- WB's assessment of the risk of a company is baked into the probabilities for future cash flow scenarios of the company
- "I don't know what the true cost of capital is for a business unless we own it"

- **<u>Advice to non-professional investors</u>**

Advice to non-professional investors:

- If you like spending 6-8 hours per week working on investments, do it
- If you don't, then dollar cost average into index funds. This accomplishes diversification across assets and time, two very important things.
- "There is nothing wrong with a 'know nothing' investor who realizes it. The problem is when you are a 'know nothing' investor but you think you know something."
  - NOTE: this is analogous to the concept of 'metaknowledge' that Mauboussin talked about…there's also a Confucius quote on this

- **<u>On Berkshire:</u>**

<u>On Berkshire…</u>

Managing Berkshire:
- Focused hard on creating a company over time that he would like today…built the company around the way he likes to work
- Hates meetings, managing people, and company rituals
- BRK has no general counsel or IR
- Directors meet in person only once per year
- 17 people employed at HQ
- "I don't call managers of my businesses, they call me"

Buying businesses:
- The first question I ask is: "Does the owner love the business or does he/she love the money?" It's very easy to tell the difference.
- I am proud to be able to provide a good home for many businesses. It is like finding a home for a painting. Business owners who are looking to sell can either sell their businesses to Berkshire (like putting painting in the Metropolitan Museum of Art) or sell to an LBO and let them tear it up, dress up the accounting, and resell it (like selling a painting to a porn shop).

Why he has a large cash position:
- Can't find things to buy
- In the past there were times it was like shooting fish in a barrel…sometimes even like shooting idle fish in a barrel…it's not like that now, but there will be times in the future when it will be like that again
- Berkshire is currently putting a few billion to work buying a stock, but it wouldn't trouble him deeply if they were not able to take the position

- I was born wired to allocate capital well. If I was born in Bangladesh and I walked down the street explaining that "I allocate capital well", the townspeople would say "get a job"
- **The most that owners can earn between now and Judgement Day is what their businesses in aggregate earn**
- The five most dangerous words in business may be 'Everybody else is doing it"
- Culture, more than rule books, determines how an organization behaves
- When we invest, we ask one question: how long do you have to wait to raise prices?
- **The important qualities you need are intelligence, patience, and interest, but the biggest thing is to be rational**
- Rationality is the only thing that helps you. One thing that could help would be to write down the reason you are buying a stock before your purchase

- **How to make investment decisions:**

  Filter #1 – Can we understand the business? What will it look like in 10-20 years? Take Intel vs. chewing gum or toilet paper. We invest within our circle of competence. Jacob's

  Pharmacy created Coke in 1886. Coke has increased per capita consumption every year it has been in existence. It's because there is no taste memory with soda. You don't get sick of it. It's just as good the 5th time of the day as it was the 1st time of the day.

  Filter #2 – Does the business have a durable competitive advantage? This is why I won't buy into a hula-hoop, pet rock, or a Rubik's cube company. I will buy soft drinks and chewing gum. This is why I bought Gillette and Coke.

  Filter #3 – Does it have management I can trust?

  Filter #4 – Does the price make sense?

  Since 1972 we have made no change in the marketing, process etc. Take See's candy. You cannot destroy the brand of See's candy. Only See's can do that. You have to look at the brand as a promise to the customer that we are going to offer the quality and service that is expected. We link the product with happiness. You don't see See's candy sponsoring the local funeral home. We are at the Thanksgiving Day Parades though.

- **How do you get ideas? I just read. I read all day.**
- The beautiful thing about investing is that it's a 'no called strike game' where unlike baseball the only strikes in investing are when you swhing. I don't have to swing
- The single most important decision in evaluating a business is pricing power
- There is seldom just one cockroach in the kitchen
- In the first draft of my annual shareholder letter, I address it to my sisters who don't know a lot about finance. I explain to them what they would want to know in their position. I also like to write one section that is general teaching lesson that doesn't directly apply to Berkshire.
- The way I spend my day is just reading: annual reports, transcripts, delta reports, regulatory filings, channel checks, … anything I can get my hands on
- We don't react to macro factors at Berkshire. Our macro factor is the country will do better over time
- I've made mistakes. We've mistakes. And we'll make plenty more
- Envy is one of the major problems of the human condition
- We look for directors that are shareholder-oriented, business-savvy, and interested in Berskhire.
- We collect frugal people at Berkshire
- Most of the time stocks have been in a zone of reasonableness over my lifetime
- We can afford to lose money. But we can't afford to lose reputation.

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