

Sayings of Chairman Buffett

There is no better “value investor insight” than the wisdom of Berkshire Hathaway’s Warren Buffett. Using his own words and notes from several of his talks, we present some of what’s been on his mind over the past year.

Editors’ Note: While he rarely gives interviews, Warren Buffett is generous with his time and thoughts in a variety of public forums – at the Berkshire Hathaway annual meeting, in Berkshire’s annual letter to shareholders and in dozens of meetings with student groups throughout the year. Timed to coincide with Berkshire’s annual meeting next weekend in Omaha, we’ve assembled some of his insights from the past year – on a variety of subjects important to investors and non-investors alike.

INVESTING AND INVESTMENTS

We like buying businesses with some untapped pricing power. When we bought See’s Candies for \$25 million, I asked myself, “If we raised prices by 10 cents per pound, would sales fall off a cliff?” The answer was obviously no. You can determine the strength of a business over time by the amount of agony they go through in raising prices.

A good example is newspapers. The local daily paper controlled the market and every year they raised the ad rates and circulation prices – it was almost a big yawn. They didn’t worry about losing big advertisers like Sears, J.C. Penney or Wal-Mart, or losing subscribers. They increased prices whether the price of newsprint went up or down. Now, they agonize over price increases because they worry about driving people to other media. That world has changed.

– 2005 Annual Meeting

The problem with raw materials’ businesses is that there isn’t any brand identity – no one ever says, “I want a Coke only if it comes in an Alcoa aluminum can.”

– Meeting with Vanderbilt students



[Buffett] keeps no calculator on his desk, preferring to do most calculations in his head. “I deplore false precision in math,” he says, explaining that he does not need exact numbers for most investment decisions.

– *The Wall Street Journal*

I don’t want to know the price of the company’s stock prior to my analysis. I want to do the work and estimate a value for the stock and then compare that to the current offering price. If I know the price in advance, it may influence my analysis.

– Meeting with U. of Kansas students

I cannot have an opinion on every stock every day. The market is a psychotic, drunk, manic-depressive buying and selling 4,000 companies every day. In one year, the [average stock’s] high can be double its low. These businesses are no more volatile than a farm or an apartment building, whose values do not swing so wildly.

– Meeting with Wharton students

For the first 30 years of my career, I had enough ideas that I would sell a dollar at 60 cents because I could buy another one at 40 cents. That’s not the case anymore. Now we only sell if the

business has changed or we don't trust management. I would not manage \$150 million like this.

– *Meeting with Wharton students*

If you're smart, you don't need leverage. If you're dumb, you have no business using it.

– *Meeting with Wharton students*

Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea bubble, explaining later, "I can calculate the movement of the stars, but not the madness of men." If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: For investors, as a whole, returns decrease as motion increases.

– *2005 Annual Report*

The enemy of investment success is activity. I know the American investor will not be better off if volume doubles on the New York Stock Exchange, and I also know [a publicly-traded] NYSE will be trying to figure out how to do that if it is trying to maximize its own earnings per share.

– *2005 Annual Meeting*

My broker at Citigroup told me to look through this Korean version of the Moody's guide – that it would look just like [the United States in] 1951, and he was right. In six hours I put together a small portfolio of 20-25 stocks, about \$100 million total.

One example was Daehan Flour Mills. It has a 25% market share in wheat flour in South Korea. Book value was 206,000 Won, the company had 201,000 Won in marketable securities and it was trading at 2x earnings. Markets are clearly not efficient all of the time.

– *Meeting with U. of Kansas students*

Berkshire Hathaway invested in PetroChina because it was cheap, not because it was "China."

– *Meeting with U.C.L.A. students*

MANAGERS AND MANAGING

We haven't tried to evaluate, before they have a record, who will be superstar managers. Instead, we find people who have batted .350 for 10 to 50 years. We just assume we won't screw it up by hiring them. We take people who play the game very well and allow them to play.

– *2005 Annual Meeting*

We look for three things [in our managers]: intelligence, energy and integrity. If they don't have the latter, then you should hope they don't have the first two either. If someone doesn't have integrity, then you want him to be dumb and lazy.

– *2005 Annual Meeting*

I do not hire people I would not want as friends or as neighbors. I work with people who make my life easier. You can't work with people who make your stomach grind.

– *Meeting with Wharton students*

A friend of mine spent twenty years looking for the perfect woman; unfortunately, when he found her he discovered that she was looking for the perfect man.

– *Meeting with Dartmouth students*

Too often, executive compensation in the United States is ridiculously out of line with performance. That won't change, moreover, because the deck is stacked against investors when it comes to the CEO's pay. The upshot is that a mediocre-or-worse CEO – aided by his handpicked VP of human relations and a consultant from the ever-accommodating firm of Ratchet, Ratchet and Bingo – all too often receives gobs of money from an ill-designed compensation agreement.

Getting fired can produce a particularly bountiful payday for a CEO. Indeed, he can "earn" more in that single day, while cleaning out his desk, than an American worker earns in a lifetime of cleaning toilets. Forget the old maxim about nothing succeeding like success: Today, in the executive suite, the all-too-prevalent rule is that nothing succeeds like failure.

– *2005 Annual Meeting*

BERKSHIRE HATHAWAY

Every day, in countless ways, the competitive position of each 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. But if we treat customers with indifference or tolerate bloat, our businesses will wither.

– *2005 Annual Report*

[W]e have three managers at Berkshire who are reasonably young and fully capable of being CEO. Any of the three would be much better at certain management aspects of my job than I. On the minus side, none has my crossover experience that allows me to be comfortable making decisions in either the business arena or in investments. That problem will be solved by having another person in the organization handle marketable securities. That's an interesting job at Berkshire, and the new CEO will have no problem in hiring a talented individual to do it.

– *2005 Annual Report*

Was this onslaught of more frequent and more intense storms merely an anomaly? Or was it caused by changes in climate, water temperature or other variables we don't fully understand? And could these factors be developing in a manner that will soon produce disasters dwarfing Katrina?

Joe [Brandon], Ajit [Jain] and I don't know the answer to these all-important questions. What we do know is that our

ignorance means we must follow the course prescribed by Pascal in his famous wager about the existence of God. As you may recall, he concluded that since he didn't know the answer, his personal gain/loss ratio dictated an affirmative conclusion. So guided, we've concluded that we should now write mega-cat policies only at prices far higher than prevailed last year – and then only with an aggregate exposure that would not cause us distress if shifts in some important variable produce far more costly storms in the near future.

– 2005 Annual Report

We don't think the way homes are bought and sold will change very much. Some will disagree, but we don't think the Internet will change this. [Buying and selling a home] is the biggest financial decision most people will make and people will continue to want to have a one-on-one relationship with a real estate broker.

– 2005 Annual Meeting

POLITICS AND POLICY

We're like an incredibly rich family. We sit on the porch of our huge farm – so big that we can't even see the end of it – and each year, we consume 6% more than the farm produces. To pay for this, each year we sell or mortgage a little bit of the farm that we can't see, so we don't even notice. We're very, very rich and the rest of the world is happy to buy from us or lend to us, so each year they take a piece of our valuable assets – and they work very hard. But we will have to service this. If it goes on for a long time, our children will pay.

– 2005 Annual Meeting

I'm concerned about our political leadership, but as Peter Lynch once said, "Invest in businesses any idiot could run, because someday one will." We've had many bad Presidents, but have still done well. Real GDP per capita rose seven-fold in the last century, which is remarkable.

– 2005 Annual Meeting

It would not be easy to implement, but some form of a steeply progressive consumption tax for the wealthy makes a lot of sense to me. For instance, when I fly my private jet, I use hundreds of gallons of jet fuel but I'm not taxed at a higher rate. Flying in a private jet is usually unnecessary, excessive consumption and I should be taxed appropriately via a higher consumption tax.

– Meeting with Dartmouth students

Next to the nuclear/chemical/biological weapon problem, the #1 problem we face is making sure our educational system is providing a good education to all children – and it's not. A big problem is that in many places, the rich have opted out. I imagine that if I used the local golf courses, I'd care a lot about how they were managed and maintained. It's the same with schools. There's a two-tiered system right now.

– 2005 Annual Meeting

Terrorism, it seems to me, is impossible to solve because there will always be troubled people seeking to do harm to large masses of people. The intent is surely there and knowledge of how to inflict terror is spreading. If you have intent and knowledge, the third aspect of terrorism is 'materials and deliverability.' This is harder to come by for the terrorists and what we should be working to prevent. If I knew we could devise a solution to terrorism, I would dedicate 100% of my foundation's funds to this effort, but I'm just not sure there's a solution.

– Meeting with Dartmouth students

CHARITABLE GIVING

One principle is to address very important societal problems that do not have a constituency – ideas that are politically unpopular. For example, John Rockefeller supported black colleges, something no one wanted to touch. They had no wealthy alumni, so Rockefeller said, "I'll be the alumni." That's the kind of thing I like.

– Meeting with Wharton students

Doing charity work is the opposite of investing – we look for the most difficult problem to solve and the ones that have the lowest probability of success.

– Meeting with Vanderbilt students

It's interesting that the same people who talk about the terrible cycle of dependency that welfare brings will then hand their kids when they emerge from the womb a lifetime supply of food stamps. But some poor woman who's had two pregnancies by the time she's 17, they say, "Oh, this is terrible to give her anything."

– Fortune interview

[Y]ou can argue that a very significant percentage of [my] money has been made. And I don't need the stock to control Berkshire, so it may make sense to do something very significant [charity-wise] before I die.

– Fortune interview

LIFE LESSONS

The meaning of life is to do everything you can to make sure the people you care about love you back.

– Meeting with Dartmouth students

You're changed most by your interactions with your spouse. Who your spouse is hugely affects your life and some people make mistakes.

– Meeting with Wharton students

An example is the best thing you can leave behind. Obviously, you want to leave the right example. I mean, Wilt Chamberlain's tombstone may say, "At last, I sleep alone," and that's probably not the example you want to leave. If what I've done with Berkshire – running a unique and independent company in true pursuit of shareholder value – persists and people learn from it to improve the way they invest and run their companies, that would be a fine legacy to leave.

– Meeting with Dartmouth students