“The folksy god of American capitalism.”
—*VANITY FAIR*

Warren Buffett

In His Own Words

Edited by David Andrews

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When you get to my age, you'll really measure success in life by how many of the people you want to have love you actually do love you. I know people who have a lot of money, and they get testimonial dinners and they get hospital wings named after them and do all kinds of things. And the truth is that nobody in the world loves them. If you get to my age in life and nobody thinks well of you, I don't care how big your bank account is, it's a disaster.

—Warren Buffett

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Introduction

ONE COULD FORGIVE Warren Buffett for lacking in modesty. From his office in Omaha, Nebraska—without even the benefit of a computer—he has racked up an investment record that far surpasses his counterparts on Wall Street, or anyone else in the world, for that matter. While the major stock indexes were gaining about 11 percent a year from the 1950s to the 1990s, Buffett was making investment choices that gained in value by about 29 percent a year, resulting in an investment business—Berkshire Hathaway—that is now the fourth-largest public company in the world, and netting him $84.5 billion.

Yet the Oracle of Omaha speaks modestly of his own abilities. While he acknowledges that he has a unique ability to evaluate businesses, he doesn't feel entitled to the vast wealth that ability has earned him. Instead, he likes to say that he won the "ovarian lottery" by being born with the right skill set, to the right family, at the right place and time. Had he been born a few centuries earlier or somewhere in the developing world, his ability to allocate capital might have been worthless. That's one reason Buffett has pledged to give most of his money to charity, through the Bill and Melinda Gates Foundation as well as foundations run by his three children.

Even though Buffett speaks modestly of himself, he doesn't shy away from the limelight. He is more than willing to expound on his ideas about investment theory, current events, tax policy, or how to live a worthwhile life. He spends hours talking investments on CNBC, pens editorials in the *New York Times*, and shares colloquial stories in his annual report to Berkshire Hathaway shareholders (selections from all of these sources can be found on the following pages).

On investment, Buffett has a few rules. Look for businesses with an "enduring competitive advantage"—ones that could raise their prices tomorrow and not lose customers. Once you find one of those businesses, buy shares if the price is right, and then don't sell. One of the biggest mistakes investors make, he says, is frequently buying and selling stock and paying the broker fees that go with each transaction. That's one reason (besides a personal sense of loyalty) that Berkshire Hathaway rarely sells the stocks it buys, even when the businesses underperform.

Buffett's advice on life is simple, too. Find a profession you love, marry the right person, and love your family unconditionally. Believe in yourself, and don't listen too much to others. It's advice that Buffett has lived throughout his 80-plus years, bringing him not only a vast personal fortune, but more importantly, a loving and joyful life.

Part I

PART ONE: BUSINESS EMPIRE

Investing

RESEARCHING INVESTMENTS

WHEN I BUY a stock, I think of it in terms of buying a whole company just as if I were buying a store down the street. If I were buying the store, I'd want to know all about it.

—*Forbes*, November 1, 1969

LIMITING YOUR INVESTMENTS

IN THE INVESTMENT world, if you had a punch card when you got out of school, and there were only 20 punches on it, and when that was done, you were all done investing, you'd make more money than having one with unlimited punches. You'd make sure you used them for the right things.

—University of Notre Dame, spring 1991

INVESTMENT AND SPORTS

I CALL INVESTING the greatest business in the world, because you never have to swing. You stand at the plate, the pitcher throws you General Motors at 47! U.S. Steel at 39! And nobody calls a strike on you. There's no penalty except for the opportunity lost. All day you wait for the pitch you like; then when the fielders are asleep, you step up and hit it.

—*Forbes*, November 1, 1974

TED WILLIAMS DESCRIBED in his book, *The Science of Hitting*, that the most important thing—for a hitter—is to wait for the right pitch. And that's exactly the philosophy I have about investing. Wait for the right pitch, and wait for the right deal. And it will come. It's the key to investing.

—*CBS News*, February 8, 2012

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.

—letter to Berkshire Hathaway shareholders, February 2014

DEGREE OF DIFFICULTY counts in the Olympics; it doesn't count in business. You don't get any extra points for the fact that something's very hard to do, so you might as well step over one-foot bars rather than try to jump over seven-foot bars.

—CNBC, October 18, 2010

THINKING ABOUT INVESTMENT

The best way to think about investments is to be in a room with no one else and to just think. If that doesn't work, nothing else is going to work.

—University of Florida, October 15, 1998

THE TEMPERAMENT OF AN INVESTOR

SUCCESS IN INVESTING doesn't correlate with IQ once you're above the level of 25. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.

—*BusinessWeek*, July 5, 1999

ORDINARY COMPETENCE, EXTRAORDINARY RESULTS

WHAT WE DO is not beyond anybody else's competence. I feel the same way about managing that I do about investing: It's just not necessary to do extraordinary things to get extraordinary results.

—*Fortune*, April 11, 1988

STUDYING FINANCIAL DATA

If merely looking up past financial data would tell you what the future holds, the Forbes 400 would consist of librarians.

—letter to Berkshire Hathaway shareholders, February 2009

KNOW YOURSELF

The unsophisticated investor who is realistic about his shortcomings is likely to obtain better long-term results than the knowledgeable professional who is blind to even a single weakness.

—letter to Berkshire Hathaway shareholders, February 2014

THE SIMPLICITY OF INVESTMENT

DRAW A CIRCLE around the businesses you understand and then eliminate those that fail to qualify on the basis of value, good management, and limited exposure to hard times.

—*Forbes*, November 1, 1974

I DON'T KNOW a thing now that I didn't know at 19 when I read [Benjamin Graham's *The Intelligent Investor*]. For eight years prior to that I was a chartist. I loved all that stuff. I had charts coming out my ears. Then, all of a sudden a fellow explains to me that you don't need all that, just buy something for less than it's worth.

—University of Notre Dame, spring 1991

I HAVE THIS complicated procedure I go through every morning, which is to look in the mirror and decide what I'm going to do. And I feel at that point, everybody's had their say.

—*The Snowball*, 2008

BEATING THE MARKET

THERE IS NO hunch or intuitiveness or anything of the sort. I mean, I try to sit down and figure out what the future economic prospects of a business are.

—University of Nebraska–Lincoln, October 10, 1994

HOW DO YOU beat Bobby Fischer? You play him at any game but chess. I try to stay in games where I have an edge.

—*BusinessWeek*, July 5, 1999

MOST PEOPLE CAN'T do a couple percentage points better than the market. I'm telling people I still expect to do a little better than average, but nothing like I've done in the past. I wouldn't be running it if I thought I would be doing just average. That may be what happens, and I know that I can't do more than a couple points better than average. But it's better than most people do themselves. It may be better than I do.

—*Haaretz*, March 23, 2011

THE ADVANTAGE OF HAVING LESS MONEY

IF I WAS running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. I think I could make you 50 percent a year on $1 million. No, I know I could. I guarantee that.

—*BusinessWeek*, July 5, 1999

IDEA QUOTA

MY IDEA QUOTA used to be like Niagara Falls—I'd have many more than I could use. Now it's as if someone had dammed up the water and was letting it flow with an eyedropper.

—*Forbes*, November 1, 1969

WHEN I GOT started, the bargains were flowing like the Johnstown Flood; by 1969 it was like a leaky toilet in Altoona.

—*Forbes*, November 1, 1974

LONG-TERM INVESTMENT

I BELIEVE IN owning productive assets … whether it's farms, apartment houses, or businesses. And they'll do very well over time, and sometimes one class is doing better than another. But if you own any of those things over the next 20 years in the United States, I think you'll do well.

—CNBC, November 14, 2011

WE DON'T WANT to own things where the world is going to change rapidly because I don't think I can see change that well or any better than the next fellow. So, I really want something that I think is going to be quite stable, that has very good economics going for it.

—University of Nebraska–Lincoln, October 10, 1994

LONG-TERM INVESTMENT

The future is never clear; you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values.

—*Forbes*, August 6, 1979

SPECULATION VS. INVESTMENT

THERE'S NOTHING IMMORAL or illegal or fattening about speculation, but it is an entirely different game to buy a lump of something and hope that somebody else pays you more for that lump two years from now than it is to buy something you expect to produce income for you over time. I bought a farm 30 years ago, not far from here. I've never had a quote on it since. What I do is I look at what it produces every year, and it produces a very satisfactory amount relative to what I paid for it.

—CNBC, March 2, 2011

INVESTING IN VALUE

IF YOU OWN a business, and you plow back a good portion of your earnings into building the business, you're going to have something more valuable on average year after year. Now, sometimes the market reflects it and sometimes it's crashing for some other reason or whatever. But the stock market builds in value, underlying value, from year to year.

—*Bloomberg Markets*, August 30, 2018

TALK YOURSELF DOWN

THE WHOLE MENTALITY of Wall Street is that if you buy something—even if you're going to buy more of it later on, or if the company is going to buy its own stock in—the people seem to think that they're better off if it goes up the next day, or the next week, or the next month, and that's why they talk about "talking your book."

If we talked our book, from our standpoint, we would say pessimistic things about all four of the biggest holdings we have, because all four of them are repurchasing their shares, and, obviously, the cheaper they repurchase their shares, the better off we are.

—Berkshire Hathaway annual meeting, May 2, 2015

REACTING TO UNCERTAINTY

I DO NOT think if Ben Bernanke comes up and whispers to me that he's going to do X, Y, or Z tomorrow, I'm not going to change my view about what businesses I want to own. I want—I'm going to own those businesses for years just like I would own a farm or an apartment house and there'll be all kinds of events and there'll be all kinds of uncertainties and in the end, what will really count is how that business or farm or apartment house does over the years.

—CNBC, November 14, 2011

DIVERSIFICATION

IF YOUR GOAL is not to manage money in such a way as to get a significantly better return than the world, then I believe in extreme diversification. So I believe 98 or 99 percent of people … who invest should extensively diversify and not trade, so that leads them to an index fund type of decision with very low costs. All they're going to do is own a part of America and they have made a decision that owning part of America is worthwhile.

—University of Florida, October 15, 1998

IF YOU REALLY know businesses, you probably shouldn't own six of them. If you can identify six wonderful businesses, that is all of the diversification you need, and you're going to make a lot of money, and I will guarantee you that going into a seventh one …, rather than putting more money into your first one, has got to be a terrible mistake. Very few people have gotten rich on their seventh best idea.

—University of Florida, October 15, 1998

ACTIVE TRADING

ANYTHING THAT CAUSES people to think they can trade actively in stocks and do better than if they sat on their rear is a terrible mistake. American business has done wonderfully for investors over the years, yet many investors have managed to turn in bad performances. You can say to yourself, if the Dow started the 20th century at 66 and is now at 12,000, how could anybody lose money? But people do lose money. But they lose money by trying to jump in and out of this and that, and think that they should buy this stock because the earnings are going to surprise on the upside or some crazy thing like that. If they just buy good businesses, they'll do fine.

—CNBC, November 14, 2011

ACTIVE TRADING

WALL STREET MAKES its money on activity. You make your money on inactivity. If everybody in this room trades their portfolio around every day with every other person, you're all going to end up broke. The intermediary is going to end up with all the money. On the other hand, if you all own stock in a group of average businesses and just sit here for the next 50 years, you'll end up with a fair amount of money and your broker will be broke.

—University of Florida, October 15, 1998

IF YOU OWN a farm and somebody said, you know, Italy's got problems. Do you sell your farm tomorrow? If you own a good business locally in Omaha and somebody says Italy's got problems tomorrow, do you sell your business? Do you sell your apartment house? No. But for some reason, people think if they own wonderful businesses indirectly through stocks, they've got to make a decision every five minutes.

—CNBC, November 14, 2011

ACTIVE TRADING

(*A*) INVESTORS, OVERALL, will necessarily earn an average return, minus costs they incur; (*b*) Passive and index investors, through their very inactivity, will earn that average minus costs that are very low; (*c*) With that group earning average returns, so must the remaining group—the active investors. But this group will incur high transaction, management, and advisory costs. Therefore, the active investors will have their returns diminished by a far greater percentage than will their inactive brethren. That means that the passive group—the "know-nothings"—must win.

—letter to Berkshire Hathaway shareholders, February 2008

INVESTING AND THE LAWS OF MOTION

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*.

—letter to Berkshire Hathaway shareholders, February 2006

LEARNING HUMAN BEHAVIOR

I LEARNED ENOUGH about investing by the time I was in my early 20s to take care of me the rest of my life.…But I learned a lot more about human behavior as I went through life. I did not learn that by reading a book by Ben Graham or something where I was going to learn about investments. I mean, learning about human behavior, I think, really, 90 percent of is by experience. I don't think you find a lot of books that teach you about that.

—Forbes 400 Summit on Philanthropy, June 26, 2012

BUFFETT'S FIRST STOCK

I BOUGHT MY first stock when I was 11. I don't know why I waited so long, I was interested much earlier. But it took me until I was 11 to get the 120 bucks to buy it. I bought three shares of Cities Service, preferred at 38. It went to 27—you remember these things. My sister bought three shares with me. She couldn't stand the idea that I was going to get rich and she wasn't. We would walk to school and she kept reminding me as the stock went down. When it got back up to 40, I sold it. We each made $5 on our three shares. It went to 200 and something afterward. It doesn't pay to talk to your sister about your stocks on the way to school.

—*Georgia Tech Alumni Magazine*, Winter 2003

GREED, FEAR, AND BUYING

A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful.