



Live your dream.

The Wisdom of Warren Buffett

Warren Buffett, one of the most eminent investors of our times, recently released his year-end letter to Berkshire Hathaway shareholders. As usual, the Oracle of Omaha's comments are filled with a good deal of wit and candour. Where else could you hear a Fortune 500 CEO say he enjoys issuing new stock *"about as much as we relish prepping for a colonoscopy"*?

Berkshire Hathaway is a conglomerate that Warren Buffett manages. Simply, it holds investments in other companies. And these companies' values go to individual shareholders of Berkshire Hathaway. In this way, Berkshire Hathaway is like a mutual fund—one entity that holds shares in other entities, to the *"mutual"* benefit of its shareholders.

Here are some key points from this and past letters that we felt our clients would enjoy. These valuable lessons may sometimes get lost in media hype and our oftentimes focus on short-term results:

1. When you invest, you own long-term businesses

Berkshire Hathaway owns other businesses, such as Coca Cola, GEICO, General Electric, Goldman Sachs, Procter and Gamble, and Burlington Northern Santa Fe (BNSF). They are all businesses.

Buffett once said, *"As far as I am concerned, the stock market doesn't exist. It is there only as a reference to see if anybody is offering to do anything foolish."*

He still means it, and all you need to do is read the first page of Berkshire's report for proof. Here, Berkshire monitors its annual progress by listing the growth of its book value, not stock price—something it always has done.

"Year-to-year market prices can be extraordinarily erratic," writes Buffett. *"Even evaluations covering as long as a decade can be greatly distorted by foolishly high or low prices at the beginning or end of the measurement period."*

Similarly, Buffett isn't concerned with what an individual stock's price has done in the past month or year, or even the past few years. Instead, he looks at the long-term prospects of those businesses.

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So why, as investors, do we measure the stock price or the unit price of a fund as an assessment of how well we are doing? Buffett does not do that. We should be more concerned about how the underlying businesses are doing and if their net worth is growing.

2. Learn from his strategy

"Buy when everyone else is selling. Fear is a contagion in the stock market. Legitimate concerns about an industry, sector, or the entire market often spread like wildfire, driving down the stock prices not just of troubled firms, but also of other companies who are in good shape."

Buffett knows this well, and throughout his career he has made hay by buying good stocks or companies when more fearful investors sat on the sidelines, passing over bargains.

That part of Buffett's approach was evident in late 2008 and 2009, as he used the financial crisis and bear

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market as opportunities to do some bargain shopping. *“It's been an ideal period for investors: A climate of fear is their best friend,”* he writes. *“Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance. In the end, what counts is what you pay for a business through the purchase of a small piece of it in the stock market and what that business earns in the succeeding decade or two.”* Note that he used the time frame of a decade or two in his assessment.

Buffett has made no bones about the severity of the financial crisis and economic trouble. But while others have said the financial crisis will lead to a “new normal”, and that things are “different this time”, he has maintained that the economy will work things out and get back to “normal”. He has a strong faith in the ability of good businesses to weather these financial storms and has kept his eyes open for opportunities to add more instead of running away from the markets when many were shouting “Exit!”

“Big opportunities come infrequently. When it's raining gold, reach for a bucket, not a thimble”, declares Buffett.

3. Avoid the hype of the media and analysts

“Investors who buy and sell based upon media or analyst commentary are not for us,” Buffett wrote.

4. The importance of being defensive and not trying to outperform all the time

“Though we have lagged the S&P in some years that were positive for the market, we have consistently done better than the S&P in the 11 years during which it delivered negative results. In other words, our defence has been better than our offence, and that's likely to continue.”

5. The importance of owning investments with income streams

“We own positions in non-traded securities of Dow Chemical, General Electric, Goldman Sachs, Swiss Re, and Wrigley with an aggregate cost of \$21.1 billion and a carrying value of \$26 billion. We purchased these five positions in the last 18 months (Sept 2008 - Feb 2010). Setting aside the significant equity potential they provide us, these holdings deliver us an aggregate of \$2.1 billion annually in dividends and interest.”

We end with Buffett's most important lesson regarding investing:

“To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insight, or inside information. What's needed is a sound intellectual framework for decisions and the ability to keep your emotions from corroding that framework.”

If you would like to learn how to live your dream or for further information, contact our office today.



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