column

a pilgrimage to omaha

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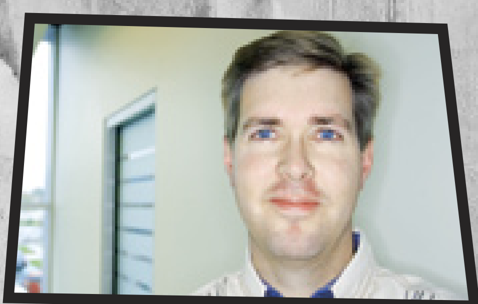

In my pursuit of business knowledge and heroes, I decided to make a pilgrimage to the annual Berkshire Hathaway shareholder meeting this year to see the "Oracle of Omaha" in person — the world famous investor, Warren Buffett.

On April 30th, I sat for six hours at the feet of Buffett and his partner Charlie Munger, whom Buffett claims must be the reincarnated Benjamin Franklin due to his immense wisdom. Buffett is 74 and Munger is 84. They have to work together, quipped Buffett, because he can see and Charlie can hear.

This year, Buffett will likely pass Bill Gates to become the world's richest man. For more than 30 years his company Berkshire Hathaway has generated an average annual return of more than 25 percent.

What does Buffett know that the rest of us don't? How did he become such a savvy investor?

After carefully studying "The Warren Buffett Way" last year, and after my pilgrimage this year, I see a portrait of a man who loves business, is extremely honest and open, and who is dedicated to basic principles of investing that most of the world impatiently and greedily overlooks. I am trying to understand these powerful principles and how to apply them to my own business life.

Buffett and Munger express surprise at how few people think and study and invest the way they do. According to Buffett, success in investing has to do more with temperament and philosophy than with smarts. There are just too many people trying to get rich quick, too many stock market traders and too few long-term investors.

"An investor should act as though he had a lifetime decision card with just 20 punches on it," says Buffett. "With every investment decision his card is punched, and he has one fewer available for the rest of his life." Think of that — 20 investment decisions in your entire life!

"Lethargy bordering on sloth remains the cornerstone of our investment style," wrote Buffett in the 1990 annual report.

What do they during all of the time when you are not buying and selling stocks? It appears to me that Buffett and Munger spend most of their time in their offices reading annual reports day, after day, after day. That is definitely the picture they paint for their shareholders.

Occasionally they find a company that is sufficiently undervalued to warrant a large investment on their part. Buffett says they decided to buy a 1 percent stake in PetroChina not after visiting China or getting insider tips, but after reading its annual reports and comparing the opportunity there with other stocks in the oil and gas sector.

Buffett credits his two mentors for all of us investing success. He claims to be 85 percent Ben Graham (the father of value investing) and 15 percent Philip Fisher.

From Graham, Buffett learned that the market is driven by greed and fear. Individual companies have an "intrinsic value" based on their ability to generate future cash flows. Because there are so many momentum investors and short-term traders in the market, companies' stock prices exceed their intrinsic value when the market is driven by greed. When the market is driven by fear (usually after some bad news), a company's stock price will fall below its intrinsic value.

When Buffett finds an undervalued stock, with a large enough "margin of safety", or in other words, a very attractive price, he buys it and holds it for the long term. Just a handful of decisions have generated his $40+ billion in wealth. He doesn't buy and sell stocks regularly. He doesn't believe in portfolio diversification. And he doesn't analyze macro-economics at all. His decisions are made based on the individual company's performance and future cash flows.

From Fisher, Buffett learned that you should only invest in your personal "circle of competence." For Buffett, this means insurance, retailing, consumer products and other businesses that he understands. For me, this would mean software, digital content and Internet businesses. Fisher also taught him that when you buy a stock, you own a business and must understand it. Fisher believed in having a "scuttlebutt" network to help you get information from employees, customers, partners and competitors about any business that you own.

Finally, Buffett claims that being a businessman has helped him be a better investor, and being an investor has helped him be a better businessman.

I'm disappointed that I went 14 years in business before taking an interest in the strategies of Buffett. Sometimes we get so busy that we don't take time to learn from the best. But now that I have studied the ideas of Buffett and made my pilgrimage to Omaha, I can see the value of his way of thinking, and I highly recommend it to you. fin