

About Life

When Warren Buffett speaks on stock markets, business ethics, or the price of corn in Nebraska, ears perk up all over the world. His words often have relevance beyond the immediate issue. They bring forth an “Ah ha!” or “Of course!” Buffett’s comments seem to touch many aspects of our lives. Though he ranks among the wealthiest people in the world, his friend Charlie Munger says that Buffett also is one of the happiest people he knows. Before reading what Buffett has to say about successful investing, let’s see what he says about the more important subjects of living productively and being content.

OMAHA? OMAWHERE? OMAWHAT?

Warren Buffett—or “Fireball,” as his dad called him—spent his early years attending public school in Omaha.

When his father, Howard Buffett, was elected to the U.S. House of Representatives, the family moved to the nation's capital. Young Warren pined to go back home:

“I was miserably homesick. I told my parents I couldn’t breathe when lying down. I told them not to worry about it, to get a good night’s sleep themselves, and I’d just stand up all night.”

Eventually, 12-year-old Warren was allowed to return to Omaha to live with his grandfather until the end of the school term.¹ Clearly, Warren agreed with those who call it the “beautiful island of Omaw-hah.”

Buffett later attended Wharton School of Business at the University of Pennsylvania and graduate school at Columbia University. He worked for the Graham-Newman Company in New York; but in early 1956, at age 25, he went home to Omaha to stay:

“I’ve lived in New York and Washington, but the logistics of New York take a lot of time. I can get the pluses of New York and Los Angeles by getting on a plane and flying for three hours, but I pay no penalty by having to live there.”²



“I think it’s a saner existence here. I used to feel, when I worked back in New York, that there were more stimuli just hitting me all the time, and you’ve got the

*normal amount of adrenaline, you start responding to them. It may lead to crazy behavior after a while. It's much easier to think here.”*⁵

Buffett's younger son, Peter, a musician, composed a song called “Nebraska.” It reflects a similar love of America's heartland: “It expresses how strongly I feel about having the foundation, the solidity, the spiritual roots of a homeland,” Peter Buffett said of his composition.

LIVE HOW YOU WANT TO LIVE

“One of the things that attracted me to working with securities was the fact that you could live your own life. You don't have to dress for success,” said Warren Buffett.⁴

*“I can't think of anything in life I want that I don't have.”*⁵

Is Buffett's lifestyle merely the path of least resistance for him?

*“It's easier to create money than to spend it.”*⁶

EAT WHAT YOU WANT TO EAT

If we are what we eat, Buffett has been all-American:

“My ideas about food and diet were irrevocably formed quite early—the product of a wildly successful party

that celebrated my fifth birthday. On that occasion we had hot dogs, hamburgers, soft drinks, popcorn, and ice cream.”

Buffett’s signature dish is a Dusty Sundae: He pours lots of Hershey’s Chocolate Syrup over vanilla ice cream and then heaps malted milk powder over that. He justifies the calories mathematically:

“The caloric consumption produced by this concoction is inconsequential. Assume that your basal metabolism rate is 2,800 calories per day. Simple arithmetic tells us that you can—indeed you must—consume slightly over 1 million calories per year. In my own case—with a life expectancy of about 25 years—this means that, in order to avoid premature death through starvation, I need to eat some 25 million calories. Why not get on with it?”⁷

There are times, however, when calories aren’t worth the cost. Buffett once was offered a glass of high-priced wine at a dinner party. Holding his hand over his glass, he replied:

“No, thanks. I’ll take cash.”⁸

HAVE A HOBBY

Investing is both sport and entertainment for Buffett. He likens finding a good acquisition to “bagging rare and fast-moving elephants.”⁹

However, friends, family, and the card game of bridge fill his spare time. He gathers with family and friends for special occasions, such as to celebrate an award given by the Omaha YWCA to his daughter for her work on The Rose Theater, and for Bill Gates's wedding on the Hawaiian island of Lanai.

Every other year, he organizes a meeting of the Buffett Group, a gathering of his longest and dearest friends. Although he quit racquetball after injuring his back, he still occasionally plays golf; and at the 1996 annual meeting, a noticeably slimmer Buffett explained that he'd taken up working out on a treadmill. The audience noticed that he'd also switched to sipping Diet Coke at the meeting, versus Classic or Cherry Coke.

Bridge has been Buffett's great passion; and under the guidance of an expert coach, his card game has risen to new levels. He likes the game so much that he says:

*"Any young person who doesn't take up bridge is making a big mistake."*¹⁰

Buffett played bridge with *Forbes* publisher Malcolm Forbes the night before the flamboyant capitalist died of a heart attack. The game took place in Forbes's London mansion, and it pitted Corporate America's Six Honchos (CASH) against British members of Parliament. The CASH team consisted of Buffett, Forbes, Bear Stearns chairman Alan "Ace" Greenberg, CBS chairman Laurence Tisch,

and several other Americans. They played morning and afternoon, with the CASH team first losing to bridge-playing members of the House of Lords and then besting members of the House of Commons.

“I don’t think about anything else when I play bridge.”¹¹



“I always said I wouldn’t mind going to jail if I had three cellmates who played bridge.”¹²

Buffett’s bridge coach (Sharon Osberg is a world champion player whom he met through bridge-playing friend Carol Loomis) introduced him to the computer and to ImagiNation, a network that allows him to play cards from home with friends around the country.

“I’d walk by a PC and be afraid it might bite me, but once I got started it was easy.”

Thanks to the computer, Buffett now cuts the deck with his sister and her husband who live in Carmel, California; distinguished friends in Washington, D.C.; and even William H. Gates Sr., the Seattle attorney whose famous son founded Microsoft Inc.:

“Now it is much easier to get the game up and running with the same people I usually played with, only now we all sit thousands of miles apart. I played for six

hours one Sunday. I don't play as many face-to-face games anymore.”¹³

Bill Gates explained what followed:

“Despite the fact that he had studiously stayed away from technology and technology investing, once he tried the computer, he was hooked. Now, many weeks, Warren uses online services more than I do.”¹⁴

BE PASSIONATE

Passion sometimes involves spending money, as it did when Buffett bought his corporate jet, “The Indefensible.” Buffett considered naming the plane “The Charles T. Munger” in honor of his partner, who still resolutely flew economy class:

“I've fallen in love with the plane. It's going to be buried with me.”¹⁵

After Buffett went to New York for nearly a year to work through problems at Salomon Inc., he began calling his plane “The Semidefensible.”¹⁶

But, alas, love affairs sometimes end. When Berkshire acquired NetJets Inc. in 1995, both Buffett and Munger, started using the corporate-jet, fractional-ownership service. Now Buffett sings the praises of NetJets.

Buffett has had a lifetime love for cola drinks, first Pepsi-Cola and later Coca-Cola (Cherry Coke, to be precise). The Buffetts once threw a party, and the late Susie Buffett decorated the entrance with 3-foot-tall Pepsi bottles in the front windows.

“Everybody who knows Warren knows he doesn’t have a bloodstream—it’s a Pepsi stream; he even has it for breakfast,” Susie said.

AIM HIGH

Now that you are the richest man in America, asked a shareholder at a Berkshire Hathaway annual meeting, what is your next goal? “That’s easy,” Buffett replied. “To be the oldest man in America.”¹⁷

But he doesn’t believe in overreaching:

“I don’t try to jump over seven-foot bars: I look around for one-foot bars that I can step over.”¹⁸

ATTENTION INVESTORS: WARREN BUFFETT IS CROSSING THE STREET

At the 1996 annual meeting, an investor asked what would happen to Berkshire Hathaway if Buffett were to get hit by a truck. The question pops up more often than toast at breakfast. “I usually say I feel sorry for the

truck,” Buffett sometimes quips. Over the years he’s tried various comebacks:¹⁹

1985: In an article about Berkshire’s long-term commitment to the companies it acquires, Buffett noted: “The managers have a corporate commitment and therefore need not worry if my personal participation in Berkshire’s affairs ends prematurely (a term I define as any age short of three digits).²⁰

1986: “This is the proverbial ‘truck’ question that I get asked every year. If I get run over by a truck today, Charlie [Munger] would run the business, and no Berkshire stock would need to be sold. Investments would continue.”

Also, Buffett surmised that the stock might “move up a quarter or a half point on the day that I go. I’ll be disappointed if it goes up a lot.”²¹

1991: “Our businesses run as if I’m not there, so the exact location of my body shouldn’t matter.”²²

1993: Even the media reminds Buffett of his mortality. A television reporter asked how he’d like to be remembered: “Well, I’d like for the minister to say, ‘My God, he was old.’”²³

1994: “I have publicly announced I plan to run Berkshire until 5 or 10 years after I die. But Berkshire is pretty easy to run.”²⁴

1995: “I’m thinking of making a purchase of Berkshire,” said a member of the audience at the annual meeting, “but

I'm concerned about something happening to you. I cannot afford an event risk."

"Neither can I," Buffett replied.

2000: He wouldn't want to be roadkill, but . . . "Well, just so it's not a GEICO driver."²⁵

2006: When Buffett surprised the world with his more than \$30 billion charitable giving plan in 2006, shareholders got the message: Buffett acknowledges his mortality, and he's planning ahead. A few years back, Buffett announced that his son Howie would become Berkshire's chairman and that several current managers would take over the operation of the company. It was widely believed that Louis Simpson, who has invested GEICO's insurance float for the last 25 years, would manage much of Berkshire's investments. During his time at GEICO, Simpson outpaced the S&P 500 by almost 7 percent a year, even with some slow years thrown in here and there. The notion that Simpson would take over investments when Buffett could no longer handle them fell by the wayside when, in the 2006 annual report, Buffett wrote that he was accepting resumes from younger candidates for the job. Despite his skills, Simpson is only six years younger than Buffett. Buffett would like to have a succession plan with a longer tail.

AIM WELL

Invest the same way an expert plays hockey, says Buffett:

*“Like Wayne Gretzky says, go where the puck is going, not where it is.”*²⁶



*“To swim a fast 100 meters, it’s better to swim with the tide than to work on your stroke.”*²⁷

FOCUS ON YOUR GOALS

*“If we get on the main line, New York to Chicago, we don’t get off at Altoona and take side trips.”*²⁸



*“I’ve often felt there might be more to be gained by studying business failures than business successes. It’s customary in business schools to study business successes. But my partner, Charles Munger, says all he wants to know is where he’s going to die—so he won’t ever go there.”*²⁹

KEEP LIFE IN PERSPECTIVE

Buffett had a notepad on his desk that read:

*“In the event of nuclear war, disregard this message.”*⁵⁰

In 1985, commenting on investments resulting in a 22 percent compounded growth for 20 years:

*“It has been like overcoming a misspent youth.”*⁵¹

At a cocktail party, a tipsy woman approached Buffett and cooed, “I see money hanging all over you.”

Buffett told a reporter:

*“I don’t measure my life by the money I’ve made. Other people might, but I certainly don’t.”*⁵²



*“Money, to some extent, sometimes lets you be in more interesting environments. But it can’t change how many people love you or how healthy you are.”*⁵³



*“Success is having people love you that you want to have love you.”*⁵⁴



*“It irritates the hell out of me, but you can’t buy love.”*⁵⁵

NICE GUYS FINISH FIRST—SOMETIMES

“We’ve seen oil magnates, real estate moguls, shippers, and robber barons at the top of the money heap, but Buffett is the first person to get there just by picking stocks,” says *Time* reporter John Rothchild.⁵⁶ Rothchild failed to mention that Buffett didn’t start with inherited money; he made it on his own. Buffett’s progression to the top tier of the wealthiest Americans no doubt will become an American legend. Forget Horatio Alger stories. From now on, stories of successful self-made people will

be called “Warren Buffett” stories. Step by step, this is how he climbed up the Forbes 400 list of wealthiest Americans, starting in 1943.

1943: Warren tells a pal that he will be a millionaire by age 30 or “I’ll Jump off the tallest building in Omaha.”⁵⁷

1982: Warren Buffett ranked number 82 with \$250 million. Daniel K. Ludwig was first on the list with \$2 billion, and Gordon Peter Getty was number 2 with \$1.4 billion.

1984: Buffett was number 23 with holdings worth \$665 million. First was Getty with \$4.1 billion. Second was Sam Walton, worth \$2.3 billion.

1985: **BUFFETT BECOMES NEBRASKA’S FIRST BILLIONAIRE WITH \$1.07 BILLION.**⁵⁸ He ranked number 12 on the Forbes 400. Walton made the top with \$2.8 billion. Ross Perot was number 2 with \$1.8 billion.

In 1986, *U.S. News & World Report* published a list of 100 individuals and families who owned the biggest stakes in America’s publicly traded companies. Buffett ranked eighth, with the Walton family at the top. Buffett observed: “Did you see how precise they tried to be? The only thing is, they forgot to allow for a couple of burgers that I bought at Bronco’s last night.”⁵⁹

1988: Buffett’s net worth rose to \$2.2 billion, but he dropped to ninth place. Walton, with \$6.7 billion, and John Kluge, with \$3.2 billion, were in the lead.

1989: Buffett sped ahead to number 2 with \$4.2 billion. John Kluge was number 1 with \$5.2 billion. The leader

worldwide was Yoshiaki Tsutsumi, a Japanese developer worth \$15 billion.

1991: Lower on the list, but as rich as ever, Buffett took fourth place with \$4.2 billion. Kluge again was in first place with \$5.9 billion. A newcomer, Bill Gates, took second place with \$4.8 billion of net worth.

1993: **NUMBER 1 WITH \$8.3 BILLION.** Bill Gates fell to second-wealthiest American with \$6.16 billion.⁴⁰

1994: Back to second place, Buffett's wealth rose to only \$9.2 billion. Gates led with \$9.55 billion.

On the tug-of-war between Buffett and Gates for first- or second-richest person in the United States, satirist Art Buchwald observed: "Despite being friendly in each other's presence, there must be some tension between the two men. When you're number 1, you're always looking over your shoulder to see who is coming up from behind. On the other hand, when you're number 2, you spend all your time explaining to your family how you failed."⁴¹

Buffett and Gates took turns being richest man in the world for a few years, then Gates pulled way out in front. In 2006, Gates's net worth was estimated at \$50 billion, while Buffett's was only \$42 billion. Both men were far ahead of the pack, though. The third-wealthiest person was Carlos Slim Helu of Mexico with \$30 billion. Alas, in 2007, Slim became number one.

BE HONEST

Buffett told his son Howard:

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”⁴²



“Never lie under any circumstances. Don’t pay any attention to the lawyers. If you start letting lawyers get into the picture, they’ll basically tell you, ‘Don’t say anything.’ You’ll never get tangled up if you just basically lay it out as you see it.”

An untruth can be accidental. There *was* the Nicholas Kenner affair. Buffett opened the 1990 annual meeting question-and-answer period by taking an inquiry from the 9-year-old New Yorker who then owned 11 shares of Berkshire. The youngster asked why Berkshire’s stock price, at that time trading at about \$6,600 per share, was so low. Buffett mentioned the question in his next annual letter to shareholders. Nicholas Kenner appeared at the next annual meeting with an even tougher question. Noting that since the annual report mistakenly said that he was 11, when actually he was 9 years old, Kenner asked, “How do I know the numbers in the back

[the financials] are correct?” Buffett promised a written response to the question.⁴⁵

Little white lies are forgiven if they boost the sales of See’s Candy, a company owned by Berkshire Hathaway.

“When business sags, we spread the rumor that our candy acts as an aphrodisiac. Very effective. The rumor, that is; not the candy.”⁴⁴

TELL THE WHOLE TRUTH, PLEASE

The high standards Buffett holds for journalists go back to his days as a well-organized paperboy. Buffett later became something of an investigative reporter for a story that won a 1973 Pulitzer prize. It all began in 1969 when Buffett bought the *Sun* newspapers, neighborhood weeklies in Omaha. He had heard rumors that Father Flannigan’s Boys Town, at the time a shelter for homeless boys, was amassing large amounts of money from its heart-wrenching pitches and not spending the funds on helping children.

Buffett learned of a new Internal Revenue Service (IRS) regulation requiring charitable foundations to publicly disclose their assets on a Form 990. He talked to the *Sun* staff, who got a copy of the IRS filing that corroborated the rumor. They quietly went to work on the piece, even working from the basement of Buffett’s home so that the eight-page story would not leak before it was printed.

Stan Lipsey, publisher of the *Sun* newspapers and later publisher of the *Buffalo News*, explained, “Without Warren there was no story, no Pulitzer. It was his idea; he told us about the Form 990, and then he analyzed the vast Boys Town holdings that totaled \$219 million.”⁴⁵

Since then Boys Town has regained public trust and has expanded into Girls and Boys Town with facilities in 19 different locations around the country. It remains a leader in the treatment and care of abused, abandoned, and neglected children.

Though he has a lifetime involvement with newspapers, Buffett says dealing with reporters can be risky:

*“The tough part about it is that essentially there is no one, virtually with the exception of an assassin, that can do you as much damage as somebody can in the press, if they do something the wrong way. There may be doctors out there who can do you just as much harm, but in that case, you initiate the transaction.”*⁴⁶

One misunderstanding with the media involved the *Lifestyles of the Rich and Famous* television show. Buffett’s friends were more than a little surprised when he was featured on Robin Leach’s program, since it’s not Buffett’s habit to parade his wealth.

“I was just as surprised as you were,” Buffett reportedly told friends. “I never heard from Robin Leach; we didn’t even have a request to appear. Suddenly, we were just on the show.”

Leach disputes that version of the story. “Buffett absolutely knew we were doing it. It wasn’t a sit-down interview, but he approved. That’s why we billboarded the show as an exclusive. It was.”

NOTE: Actually Borsheim’s jewelry store in Omaha invited *Lifestyles* to film a Patek Phillipe exhibition the Sunday before Berkshire Hathaway’s annual meeting. Buffett agreed to talk to Robin Leach in conjunction with the exhibit. A film crew never came to his home, and Buffett was unaware that a show was planned about him.⁴⁷

LETTER TO THE *WALL STREET JOURNAL*

On August 15, 2003, the *Wall Street Journal* published a front-page story about Buffett and his part in Arnold Schwarzenegger’s run for governor of California. (Read more about that on p. 52.) The story implied that Buffett felt California should have higher property taxes, more in line with those in Omaha. In actuality, Buffett was trying to convey the message that property taxes in California were fluky and unfair. The story, with the wrong message, was picked up and repeated around the world. Buffett was not happy about that:

October 7, 2003

Mr. Paul E. Steiger

Managing Editor

The Wall Street Journal

200 Liberty Street

New York, New York 10281

Dear Mr. Steiger:

The Wall Street Journal's August 15 article about me, based on an interview that I gave one of your reporters about my association with Arnold Schwarzenegger's campaign, was seriously misleading in a way that caused far-reaching reverberations. For reasons that I will explain, I could not write to you about this matter until now.

The article, featured on the Journal's front page, carried a headline and opened with paragraphs devoted entirely to California taxes. That's fair enough: Taxes were certainly to be a major issue in the campaign.

In talking to your reporter Joe Hallinan, I began by asking him to record the interview. He replied that his taping equipment was not working. Therefore, in verifying with him that what I'm about to recount is correct, you will have to rely on his notes. I do not

expect you to find discrepancies, given that he asked me several times to repeat key figures I presented.

What I said in respect to property taxes was very specific. I gave him an example of three houses, two in Laguna Beach and one in Omaha. The first Laguna Beach house is a property that I bought in the early 1970s. It has a current market value of about \$4 million and, because of the limitations embodied in Proposition 13, carried taxes of only \$2,264 in 2003 vs. \$2,241 in 2002. The second house, located just in back of the first, is one that I purchased in the mid-'90s. It has a market value of about \$2 million and, simply because of its later purchase, carried taxes of \$12,002 in 2003 vs. \$11,877 in 2002. I pointed out to Joe that these figures mean that the tax rate on the second house—same neighborhood, same owner, same ability to pay—is roughly ten times the rate on the first house.

I then referenced my house in Omaha, which I believe to be worth about \$500,000 (though it's assessed at about \$690,000). Taxes on it were \$14,401 in 2003 and \$12,481 in 2002.

I was satisfied, based on our conversation, that Joe understood the two highly important but uncomplicated points my examples spoke to:

- 1. Residential property taxes in California are wildly capricious, tied as they are to the date of purchase*

rather than the value of the property or financial circumstances of the owner.

- 2. In the case of properties that a homeowner has held for a long time, residential property tax rates in Omaha are far higher than in California.*

In the interview, I then said, as the story reported: This property-tax illustration, that tells you, you can draw certain conclusions from that.” Give me an F for syntax. Even so, this comment clearly applied to both observations regarding property taxes.

Yet there was no mention in the story of my second house in Laguna nor any mention of the tax inequities within California. Instead, the headline, the body of the story, and quote made it appear as if I was only talking about the differences in taxes between Omaha and California.

It’s difficult to understand this omission. Imagine that a reporter were to ask a candidate about a fiscal problem and received this reply: “Spending is up 10%, taxes are down 10%—you can draw certain conclusions from that.” If the reporter quoted only the tax-change portion on the sentence and followed it with “You can draw certain conclusions from that,” readers would be seriously misled.

The severe failings in the article were compounded a few days later when the Journal’s editorial page made the mistake of relying on the accuracy and completeness

of the Journal's reporting. Though the editorial would have undoubtedly made many of the same points it did had the writer read a complete account of my views, his analysis would have had to be at least somewhat different if he had been aware of both points I made. For example, the statement in the editorial's second paragraph that "no doubt the no-billionaire in Chico will appreciate Mr. Buffett's generosity with their cash flow" would make no sense if the writer had understood I was criticizing the inequities within California. My sympathies are clearly with the "no-billionaire" family purchasing a \$300,000 house in Chico today who faces real estate taxes materially higher than those borne by this non-resident billionaire on his \$4 million house in Laguna. They, due to Proposition 13, have been selected to subsidize me.

The Journal's editorial page was not the only medium that drew incorrect and incomplete inferences from the story. The Omaha-Laguna comparison rocketed around the world accompanied by commentary that I was suggesting raising property taxes in California—with no mention at all that I was arguing they needed to be made more equitable. When I subsequently explained to the Journal's Kevin Helliker just how misleading the story had been, our office received an e-mail from Joe Hallinan suggesting that I "might be interested in doing another interview with us, expanding on some of his

earlier points.” It is ironic that the reporter mentioned “expanding” my views when he—or his editor—was the one who had truncated my views in such a misleading and unfair manner. Another interview, of course, would have compounded the problem, since—short of the Journal forthrightly acknowledging its original error—it would have appeared that I was scrambling to revise my statement to limit political damage to Arnold. This is the same point, of course, that has deterred me from writing you, or otherwise talking about the tax issues, until we reached a date when my doing so would not influence the election. Because the Journal’s mischaracterization of my views has achieved such widespread publicity, I am planning to post this letter for an extended period on the Berkshire Hathaway website. In the talks I am periodically asked to give to journalism classes, I will think of this also as a case study of how journalism can go wrong.

If the Journal has any response to this letter, I will be happy to publish it in full on our website and also distribute it to journalism students if I’m using the story as a bad example. If the Journal should make any use of this letter, I hope that you, as well, will present it in full, not truncating it in any way.

Sincerely,

Warren E. Buffett

CULTIVATE GOOD CHARACTER

“Chains of habit are too light to be felt until they are too heavy to be broken.”⁴⁸

Character can be developed. Imagine, Buffett says, that you are a student and that you may choose one other student in your class and thereafter be entitled to 10 percent of that student’s earnings for life. But there’s a catch. You also have to choose another student to whom you will pay 10 percent of your earnings for life:

“The interesting thing is, when you think about what’s going through your mind, you’re not thinking about things that are impossible for you to achieve yourself. You’re not thinking about who can jump 7 feet, who can throw a football 65 feet, who can recite pi to 300 digits, or whatever it might be. You’re thinking about a whole lot of qualities of character. The truth is that everyone of those qualities is obtainable. They are largely a matter of habit. My old boss, Ben Graham, when he was 12 years old, wrote down all of the qualities that he admired in other people and all the qualities he found objectionable. And he looked at that list and there wasn’t anything about being able to run the 100-yard dash in 9.6 or jumping 7 feet. They were all things that were simply a matter of deciding whether you were going to be that kind of person or not.”⁴⁹



“Always hang around people better than you and you’ll float up a little bit. Hang around with the other kind and you start sliding down the pole.”⁵⁰

BELIEVE IN YOURSELF

When 20-year-old Buffett went to work at his father’s brokerage house in Omaha, a friend asked if the company would be called Buffett & Son. “No,” replied Buffett, “Buffett & Father.”⁵¹

In a matter-of-fact way, Buffett says:

“I’ve never had any self-doubt. I’ve never been discouraged.”⁵²



“I always knew I was going to be rich. I don’t think I ever doubted it for a minute.”⁵⁵

When 26-year-old Warren Buffett created his first partnership in 1956, he told investors:

“What I’ll do is form a partnership where I’ll manage the portfolio and have my money in there with you. I’ll guarantee you a 5 percent return, and I’ll get 20 percent of all profits after that. And I won’t tell you what we own because that’s distracting. All I want to do is hand in a scorecard when I come off the golf course. I don’t want you following me around and watching me shank a three-iron on this hole and leave a putt short on the next one.”⁵⁴

NOTE: Apparently, the preceding is someone's recollection of what Buffett said. Buffett did not guarantee a 5 percent return. The partnership gave the limited partners a preferential return that had to be achieved on a cumulative basis before Buffett earned anything.

*"I keep an internal scoreboard. If I do something that others don't like but I feel good about, I'm happy. If others praise something I've done, but I'm not satisfied, I feel unhappy."*⁵⁵

When asked how he has the confidence to invest in companies that others shun:

*"In the end, I always believe my eyes rather than anything else."*⁵⁶

BUT DON'T GET TOO STUCK ON YOURSELF

Probably the majority of people felt like Buffett did in high school:

*"I would not have been the most popular guy in the class, but I wouldn't have been the most unpopular either. I was just sort of nothing."*⁵⁷

When Buffett graduated from Columbia, he asked Benjamin Graham for a job (for no salary) at the Graham-Newman Co.:

*"Ben made his customary calculation of value to price and said no."*⁵⁸

For years, Buffett threw the opening pitch at Omaha Royals games preceding the Berkshire Hathaway annual meetings. Before one game, children asked for his autograph. After his pitch, which was a little weak, Buffett said:

*“I looked up and saw these same kids erasing my signature.”*⁵⁹

Wounded by a journalist who said Buffett wore cheap suits, he explained:

*“I buy expensive suits. They just look cheap on me.”*⁶⁰

NOTE: After years of usually wearing cotton shirts, slacks, and a blazer, Buffett started dressing up. He went to Italian-made Zegna suits, usually off the rack. Zegnas sell for about \$2,000.⁶¹



Upon induction to the Omaha Business Hall of Fame, Buffett said he wanted to thank his hair stylist, his wardrobe consultant, and his personal trainer, but:

*“When they looked at their handiwork, they asked to remain anonymous.”*⁶²

When the Omaha Press Club unveiled a caricature by artist James Horan, Buffett laughed:

*“Almost anything beats looking in the mirror.”*⁶⁵

Buffett and the governor of Nebraska once performed a skit together, in which the governor announced the winning numbers for a Nebraska state lottery and

Buffett dashed onto stage waving the winning stub. The governor asked Buffett what he would do with the windfall: “I think I’ll buy a second suit,” the excited Buffett stuttered. He then added, “And if I have enough left over, I’ll buy a comb.”⁶⁴

Buffett’s business partner, Charlie Munger, himself a snappy dresser, says, “Buffett’s tailoring has caused a certain amount of amusement in the business world.”⁶⁵

When a shareholder asked Buffett if he was aware of how popular he had become, Buffett replied:

*“Maybe I should tell my barber and we should save the clippings.”*⁶⁶

When it was suggested to Buffett that, as a folk hero, some people watch his every move:

*“I watch my every move, and I’m not that impressed.”*⁶⁷

CHOOSE YOUR HEROES WELL

“You’re lucky in life if you have the right heroes. I advise all of you, to the extent that you can, pick out a few heroes. There’s nothing like the right ones,” Buffett said.

Among his champions, Buffett lists his father, Howard; Senator Barak Obama; author Phil Fisher; Bill Gates; and his mentor, Ben Graham. Why these people? ⁶⁸

HOWARD HOMAN BUFFETT

“He taught me to do nothing that could [not] be put on the front page of a newspaper. I have never known a better human being than my dad.”⁶⁹

Buffett’s mother explained the relationship between father and son: “Warren and his father were always the best of friends. His dad was Warren’s hero. Howard was a wonderful husband and father. He never found it necessary to punish the children. His method was to use reason and persuasion.”⁷⁰

Buffett recalls a hometown baseball game shortly after his father had cast an unpopular House of Representatives vote on a labor measure. When Congressman Buffett was introduced, the crowd booed: “He could take stuff like that very well. He didn’t expect the world to change overnight.”⁷¹

Buffett’s father was a staunch Republican and a member of the John Birch Society. The senior Buffett had strong and independent views of the role of the United States in the world. In a speech on the House floor, Howard Buffett once said:

“Even if it were desirable, America is not strong enough to police the world by military force. If that attempt is made, the blessings of liberty will be replaced by tyranny and coercion at home. Our Christian ideals cannot be exported to other lands by dollars and guns. Persuasion and example are the methods taught by the Carpenter of Nazareth; and if we believe in Christianity, we should try to advance our ideals by his methods.”⁷²

Warren eventually abandoned Conservative politics:

“I became a Democrat basically because I felt the Democrats were closer by a considerable margin to what I felt in the early ’60s about civil rights. I don’t vote the party line, but I probably vote more for Democrats than Republicans.”⁷³



“I’m sort of a Republican on the production side, and I’m sort of a Democrat on the distribution side.”⁷⁴

SENATOR BARAK OBAMA

“I’ve got a conviction about him that I don’t get very often. . . . He has as much potential as anyone I’ve seen to have an important impact over his lifetime on the course that America takes.”⁷⁵

PHIL FISHER

One of the great original thinkers of modern investment management, Fisher is the author of *Common Stocks and Uncommon Profits* and *Conservative Investors Sleep Well*. Buffett describes his own style as 85 percent Ben Graham and 15 percent Fisher:⁷⁶

“From him [Fisher] I learned the value of the “scuttlebutt” approach: Go out and talk to competitors, suppliers, customers to find out how an industry or a company really operates.”⁷⁷

NOTE: Fisher's son Kenneth writes a column for *Forbes* magazine.

BILL GATES

*"I'm not competent to judge his technical ability, but I regard his business savvy as extraordinary. If Bill had started a hotdog stand, he would have become the hotdog king of the world. He will win in any game. He would be very good at my business, but I wouldn't be at his."*⁷⁸

As for the future of Gates and Microsoft in the shifting sands of computer software, Buffett says:

*"I'd just bet on him. Nobody has lost money doing that yet."*⁷⁹

NOTE: Buffett did bet on Gates twice and in a big way. First, he invited Gates to serve on Berkshire's board of directors; then, he handed over the bulk of his wealth to the Bill and Melinda Gates Foundation. (For more on that, turn to page 218.)

BENJAMIN GRAHAM

"Graham was the smartest man I ever knew," Buffett said.⁸⁰

NOTE: Rose Blumkin, founder of the Nebraska Furniture Mart, and all teachers rank high on Buffett's list. More about them later.

DODGE THE HYPE

“Maybe grapes from a little eight-acre vineyard in France are really the best in the whole world, but I have always had a suspicion that about 99 percent of it is in the telling and about 1 percent is in the drinking.”⁸¹



In a CNBC interview, Buffett was asked: “You have about \$15 billion in cash?” Buffett replied: “Well, I don’t have it all on me right now!”⁸²

SHARE YOUR WISDOM

When Bill Gates proposed marriage to Melinda French, he flew his betrothed to Omaha to buy an engagement ring at Borsheim’s, a jewelry store owned by Berkshire.

“Not to give you advice or anything,” said Buffett, who is known for his unabashed promotion of his own companies, “but when I bought an engagement ring for my wife in 1951, I spent 6 percent of my net worth on it.”⁸³ Though only 37 years old at the time, Gates already was a multibillionaire. Six percent of his net worth would have been around \$500 million.



Buffett says that he has no political aspirations but that he can help elected officials set better goals. Rather than a balanced budget amendment, he proposes a “3 percent solution”.⁸⁴

“Enact a constitutional amendment stipulating that every sitting representative and senator becomes ineligible for election if in any year of his term our budget deficit runs over 3 percent of the GDP [gross domestic product]. Were this amendment passed, the interests of the nation and the personal interests of our legislators would instantly merge.”

This plan would serve the nation, Buffett says, because:

“It’s not debt per se that overwhelms an individual, corporation, or country. Rather, it is a continuous increase in debt in relation to income that causes trouble.”

Other measures to control the national debt have failed because voters bounce elected officials who actually cut programs or increase taxes:

“There simply aren’t enough saints available to staff a large institution that requires its members to voluntarily act against their own well-being.”

DISREGARD OLD AGE

“Retirement plans? About 5 to 10 years after I die.”⁸⁵

Buffett’s attitude about his age also applies to those with whom he works:

“We take as our hero Methuselah.”⁸⁶

Buffett compares the management at Coca-Cola to a winning team:

“If you have the 1927 Yankees, all you wish for is their immortality.”⁸⁷

When the now-deceased Rose Blumkin hit 94, Buffett said he was forced to scrap his mandatory retirement-at-100 policy so that Mrs. B could continue to manage the Nebraska Furniture Mart, now owned by Berkshire, from the electric golf cart she steered everywhere.

“My god! Good managers are so scarce I can’t afford the luxury of letting them go just because they’ve added a year to their age.”⁸⁸

“We find it hard to teach a new dog old tricks. But we haven’t had lots of problems with people who hit the ball out of the park year after year. Even though they’re rich, they love what they do. And nothing ever happens to our managers. We offer them immortality.”⁸⁹

In recent years Buffett developed a new appreciation for youth. He added both Bill Gates of Microsoft and Susan Decker, chief financial officer of Yahoo!, to the board of directors. Buffett also launched a search for a loyal young genius to help manage Berkshire’s investments and possibly become Buffett’s successor.

ROSE BLUMKIN, MATRIARCH OF THE NEBRASKA FURNITURE MART

To Warren Buffett, 4-foot-10-inch, Rose Blumkin was an Omaha landmark. He recommended that visitors drop by and see her when they were in town. Mrs. B, as she was called, founded the massive and modern Nebraska Furniture Mart. Buffett often described her common sense and work ethic when talking to graduate students and others studying business principles. Mrs. B, who never attended a day of school, immigrated from Russia alone at age 23 to join her husband in the United States.

Mrs. B's business motto was "Sell cheap and tell the truth."⁹⁰

"If she ran a popcorn stand, I'd want to be in business with her," Buffett said. He bought the Nebraska Furniture Mart as a 53rd birthday present to himself.⁹¹

Mrs. B told the story this way: "One day, he [Buffett] walks in and says to me, 'You want to sell me your store?' And I say, 'Yeah.' He says, 'How much do you want?' I say, '\$60 million.' He goes to the office and brings back a check. I say, 'You are crazy. Where are your lawyers? Where are your accountants?' He says, 'I trust you more.'"⁹²

Later, when an inventory was taken, the store was actually worth \$85 million, but Mrs. B did not raise the price.

“I wouldn’t go back on my word, but I was surprised. He never thought a minute. But he studies. I bet you he knew.”⁹⁵

Buffett had learned of Mrs. B’s interest in selling the business and discussed the idea with her son, hoping not to offend Mrs. B when he approached her. The transaction was based on a one-page contract, no audits, and no inventories. The total legal and accounting fees were \$1,400. The investment has been hugely successful.⁹⁴

“I would rate him the best,” Mrs. B said about Buffett.⁹⁵

Sadly, however, a dispute erupted between Mrs. B and her family. The feud was hot news in Omaha, and the *Omaha World-Herald* reported every lurid detail. “She left the Nebraska Furniture Mart in a major-league snit May 3, 1989, contending that grandsons Ronald and Irvin Blumkin, company executives, were undercutting her authority in the carpet department.”⁹⁶ The entire family was aghast when Mrs. B called one of her grandsons a “Hitler.”

Mrs. B was soon bored sitting at home and, in 1989, opened the six-acre Furniture Warehouse across the street from the Nebraska Furniture Mart. She had no qualms doing this. “Warren Buffett is not my friend. I made him \$15 million every year; and when I disagreed with my grandkids, he didn’t stand up for me.” As for the success of her new business, “I didn’t open this store for money. I opened it for revenge.”⁹⁷

Mrs. B later made peace with her family and forgave Buffett. She sold her new store and its 11-acre site to the Nebraska Furniture Mart for \$4.94 million, putting her back in the fold. As part of the deal, Mrs. B continued to operate her carpet business within the store.

“I expect maybe too much,” Mrs. B said of the family fracas. Running the warehouse was a strain, and she sold because her son begged her not to work so hard.

“So I did. Five million dollars. And they paid cash. No credit. I love my kids,” she said.

“I’d rather wrestle grizzlies than compete with Mrs. B and her progeny,” Buffett said.⁹⁸

Buffett admitted learning an important lesson from the episode. The second time, he asked Mrs. B for a lifetime noncompete clause, remedying a flaw in the Nebraska Furniture Mart purchase agreement of 10 years earlier. “I was young and inexperienced,” the 62-year-old Buffett said.⁹⁹

At the Omaha Press Club show in 1987, Buffett sang the following tribute to Rose Blumkin—to the tune of “Battle Hymn of the Republic”:

Oh, we thought we’d make a bundle
When we purchased ABC.
But we found it’s not so easy
When your network’s number three.
So now the load at Berkshire
Must be borne by Mrs. B.
Her cart is rolling on.

Chorus:

Glory, glory, hallelujah
Keep those buyers coming to ya.
If we get rich, it must be through ya,
Her cart is rolling on.

Verse 2

Ideas flop and stocks may drop
But never do I pale.
For no matter what my screwups,
It's impossible to fail.
Mrs. B will save me,
She'll just throw another sale.
Her cart is rolling on.

Verse 3

Forbes may think I'm brilliant
When they make their annual log.
But the secret is I'm not the wheel
But merely just a cog.
Without the kiss of Mrs. B,
I'd always be a frog.
Her cart is rolling on.¹⁰⁰

Rose Blumkin died in 1998 at age 104.