

PART

QUESTIONS

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CHAPTER 1

A Five-Sigma Event THE WORLD'S GREATEST INVESTOR

Multiple-Choice Questions

1. Which of the following factors contribute(s) to the growth of Berkshire Hathaway?
 - I. Earnings generated by wholly owned businesses
 - II. Fees earned from investment consulting business
 - III. Price appreciation of stock portfolio
 - A. I only
 - B. I and II
 - C. I and III
 - D. I, II, and III
2. Which of the following questions would an investor or purchaser of a business need to ask before investing in a company?
 - I. How much capital reinvestment is required to keep a company running?
 - II. What is the debt obligation of the company?
 - III. What is the track record of management?
 - IV. What sort of vision does management have for the future?
 - A. I and II only
 - B. II and III only
 - C. I, II, and IV only
 - D. I, II, III, and IV

3. Which of the following statements correspond(s) with Warren Buffett's investment philosophy?
- I. There should be no difference between the approach a business owner takes and the approach a purchaser of shares takes when considering an investment.
 - II. Special consideration should be given to a company's competitors before investing in or buying the company.
 - III. When considering purchasing common stock in a company, an opinion regarding the overall stock market should come into play.
- A. I only
 - B. I and II
 - C. II and III
 - D. I, II, and III
4. Which of the following is/are a characteristic of an investor in a company's stock that differentiates the investor from an owner of a business?
- I. Investors consider whether the stock market is in a bullish or a bearish phase.
 - II. An investor seeks to make money through investment in a company.
 - III. Investors are familiar with the financials of the company whose stock they are considering purchasing.
- A. I only
 - B. II only
 - C. I and II
 - D. I and III
5. Which of the following terms does not apply to Warren Buffett's approach to purchasing common shares of a public company?
- A. Businesslike
 - B. Speculative
 - C. Analytical
 - D. Competitive analysis

6. What statement sums up the reason Warren Buffett chose to transfer from the University of Pennsylvania to the University of Nebraska?
 - A. He had a desire to work while taking classes.
 - B. He felt he should attend a university near where he would eventually settle in life.
 - C. The curriculum at the University of Pennsylvania was too theoretical for his taste.
 - D. He wanted to graduate from college quickly so he could begin his career.
7. What core concept was put forth by Graham and Dodd's *Security Analysis* that appealed to Warren Buffett?
 - A. Relative value
 - B. Cash flow generation
 - C. Competitive advantage
 - D. Intrinsic value
8. In the first investment partnership established by Warren Buffett, common stocks were purchased based on intrinsic value. What other strategy was implemented in this fund?
 - A. Listed option overwriting
 - B. Cash-secured put writing
 - C. High-yield bonds
 - D. Merger arbitrage
9. Which stock did Warren Buffett end up purchasing as a result of the salad oil scandal?
 - A. Allied Crude Vegetable Oil Company
 - B. Kraft Foods
 - C. American Express
 - D. Bank Leumi
10. What was the primary business of Berkshire Hathaway before the company was purchased by Warren Buffett?
 - A. Auto dealerships
 - B. Textile manufacturing
 - C. Life insurance
 - D. Stock brokerage firm

11. Which of the following statements define the stock market in 1969 and contributed to Warren Buffett choosing to shut down his original investment partnership?
 - I. The stock market appeared to be very speculative.
 - II. He was satisfied with the returns he had achieved.
 - III. Investments that met the value criteria had become scarce.
 - A. I and II
 - B. I and III
 - C. II and III
 - D. I, II, and III

12. How could the success of the Bill Ruane's Sequoia Fund trace its roots to Warren Buffett?
 - I. Upon closing his partnership, Buffett referred clients to Bill Ruane.
 - II. Bill Ruane and Warren Buffett were both students of Ben Graham.
 - III. Bill Ruane had been Warren Buffett's partner in the original fund.
 - A. I only
 - B. II only
 - C. I and II
 - D. I and III

13. What was the lesson Warren Buffett learned from his experience with the Berkshire Hathaway textile company?
 - A. Corporate turnarounds seldom are successful.
 - B. Commodity-oriented businesses can be profitable if the price is right.
 - C. When labor and management share common goals, a business can be successful.
 - D. Diversification is the key to investment success.

14. What aspect(s) of the insurance business was/were very attractive to Warren Buffett?
- I. The competitive advantage of owning a quality insurer
 - II. The ability to use an insurance company as an investment vehicle
 - III. The tax benefits of owning an insurance company
- A. I and II
 - B. II and III
 - C. I and III
 - D. II only
15. Which of the following may be considered a competitive advantage for an insurance company relative to its direct competitors?
- I. Patents
 - II. Location
 - III. Personnel
- A. I and II
 - B. II and III
 - C. II only
 - D. III only
16. With respect to the efficient market theory, which of the following would be used by academics to explain the success of Warren Buffett?
- A. Buffett's success is proof that with hard work and discipline the markets can be beat.
 - B. It is a statistical anomaly or five-sigma event.
 - C. With a disciplined approach, anyone may beat the markets.
 - D. There is no valid explanation for his success.

Essay Questions

1. Describe the circumstances surrounding Warren Buffett's disposition of his fortune and how it reflected his approach to investing.

2. Expand on Warren Buffett stating that he won the “ovarian lottery.”
3. As a child, Warren Buffett displayed a certain propensity that would serve him well in the investing world. What was this propensity, and what are some examples of this through his childhood behavior?
4. What macroeconomic event helped shape Warren Buffett, and specifically how was he impacted?
5. Describe Warren Buffett’s first experience with purchasing a stock and the lessons he learned.
6. Warren Buffett’s family moved to Washington, D.C., when he was 12 years old. What lessons did he learn during his time in Washington?
7. How did Warren Buffett’s time at Columbia University shape his career as an investor?
8. Discuss the scandal created by Allied Crude Vegetable Oil Company and the investment opportunity that Warren Buffett took advantage of as a result of the scandal.
9. Discuss the purchase of Berkshire Hathaway by Warren Buffett and the subsequent lesson learned by Buffett through this experience.
10. What is the attraction of investing in insurance companies for Warren Buffett?
11. Describe how Berkshire Hathaway is reflective of Warren Buffett’s personality.
12. Describe the meaning of Warren Buffett’s success being a five-sigma event.