



## The Tao of Warren Buffett: Warren Buffett's Words of Wisdom: Quotations and Interpretations to Help Guide You to Billionaire Wealth and Enlightened Business Management

By *Mary Buffett, David Clark*

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### Editorial Review

#### Review

"This is destined to be the business world's *Little Red Book* that investors and managers will resort to over and over. David Clark and Mary Buffett have again captured the heart, soul, and ethos of Warren Buffett - giving us practical, lasting strategies we can use to improve our financial performance."

-- Timothy Vick, Senior Portfolio Manager, The Sanibel Captiva trust Co., and author of *How to Pick Stocks Like Warren Buffett*

#### About the Author

Mary Buffett's own business acumen can be measured by her success as CEO of Superior Assembly, a very successful commercial and motion picture editing company, with clients including Madonna and Coca-Cola. She lives in Southern California.

David Clark is a portfolio manager and a leading authority on Warren Buffett's investment methods.

Anna Fields has received five Audie nominations from the Audio Publishers Association and is proud to have won in 2004 for All Over Creation by Ruth Ozeki.

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#### Introduction

For twelve years, from 1981 to 1993, I was the daughter-in-law of Warren Buffett, the world's most successful investor and now its greatest philanthropist.

Shortly after I married Warren's son Peter, and long before most of the world outside Wall Street had ever heard of Warren, I visited their family home in Omaha. While there, I met a small group of devoted students of the master investor's wisdom who referred to themselves as Buffettologists. One of the Buffettologists, David Clark, kept notebooks filled with Warren's wisdom on investing, which were meticulous and endlessly fascinating to read. David's notebooks were the foundation upon which he and I later shaped the best-selling investment books *Buffettology*, *The Buffettology Workbook*, and *The New Buffettology*, now published in ten languages, including Chinese and Russian.

Out of all of David's notebooks, my favorite was filled with many of Warren's most profound aphorisms, which were great fun to read because they had a way of really making you think. As I was later to discover, to Buffettologists, these aphorisms were akin to the teachings of a Taoist master in that the more the student contemplates them, the more they reveal.

As time progressed, I, too, started to collect aphorisms that Warren would say to us in private family moments and at social gatherings that included many business luminaries. At these gatherings, Warren would sometimes take the floor and answer questions in the manner of a master teacher, rewarding the student's patience with his great wisdom.

And the more I heard Warren speak, the more I learned, not only about investing, but about business and life. His aphorisms have a way of staying with you. I often find myself quoting them to make a point or thinking back on them to warn myself not to make a mistake, such as getting swept away in the wild enthusiasm of a bull market. They have even helped teach me what kinds of companies I should focus on and when is the best time to invest in them.

Keeping within the Taoist-like spirit that surrounds Warren's teachings, David and I thought that it would be fun to create *The Tao of Warren Buffett*, filling it with what we think are Warren's most enlightening aphorisms on investing, business management, choosing a career, and pursuing a successful life. These words have been true friends to us over the years as we've navigated our ways through life, business, and the search for the winning investment. We have incorporated our Buffettologists' interpretations to help provide context and to open the door for further exploration into the aphorisms' more hidden and subtle meanings.

It is my hope that this book will enrich your world by making it a more profitable and enjoyable place to invest, work, and live.

Mary Buffett

July 2006

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Getting and Staying Rich

No. 1

"Rule No. 1: Never lose money.

Rule No. 2: Never forget rule No. 1."

The great secret to getting rich is getting your money to compound for you, and the larger sum you start with, all the better. As an example: \$100,000 compounding at 15% for twenty years will grow to \$1,636,653 in year twenty, which gives you a profit of \$1,536,653. But let's say you lost \$90,000 of your initial capital before you even started and could only invest \$10,000. Your investment would then only grow to \$163,665 in year twenty, for a profit of \$153,665. This is a much smaller number. The larger the amount of money you lose, the greater the impact on your ability to earn money in the future. That is something that Warren has never forgotten. It is also the reason why he drove an old VW Beetle long after he was a multimillionaire.

No. 2

"I made my first investment at age eleven.

I was wasting my life up until then."

It is good to find one's calling early in life, and in the field of investing it allows for unparalleled opportunities for the magic of compounding sums of money to work. The time to gamble is not when one is young, when there is so much time ahead to profit from wise decisions.

The stock that Warren bought when he was eleven was in an oil company called City Services. He bought three shares at \$38, only to watch it sink to \$27. He sweated it out and, after it recovered, sold it at \$40 a share. Shortly thereafter, it soared to \$200 a share and he learned his first lesson in investment -- patience. Good things do come to those who wait -- provided you pick the right stock.

No. 3

"Never be afraid to ask for too much when selling or offer too little when buying."

Warren understands that people fear embarrassment if they ask too high a price when selling or offer too low a price when buying. No one wants to be seen as greedy or cheap. Simply stated, in the world of business, how much money you get from a sale or how much you have to pay when making a purchase determines whether you make or lose money and how rich you ultimately become. Once negotiations begin, you can come down in your selling price or up in your buying price. But it's impossible to do the opposite.

Warren has walked from many a deal because it failed to meet his price criteria. Perhaps the most famous example was his Capital Cities purchase of ABC. Warren wanted a larger share of the company for his money than Capital Cities was willing to part with -- so he walked from the deal. The next day Capital Cities caved in and gave him the deal he wanted. Ask and you might just receive, but if you don't ask...

No. 4

"You can't make a good deal with a bad person."

A bad person is a bad person, and a bad person will never make you a good deal. The world is filled with enough good and honest people that doing business with the dishonest ones is pure foolishness. If you even have to ask yourself the question "Do I trust this person?" you should immediately leave the negotiating table and look for more honest company with whom to do business. You don't want to doubt that your parachute will open when you are about to jump

out of a plane, and you don't want to doubt the integrity of the person with whom you are about to jump into business. If you can't trust them now, you won't be able to trust them later, so why trust them at all?

Warren had this lesson driven home when he was sitting on the board of directors of Salomon Brothers. Against Warren's advice, Salomon's investment bankers continued to do business with media mogul Robert Maxwell, whose finances were so precarious that his nickname was the Bouncing Czech. After Maxwell's untimely demise, Salomon found itself in a big mess trying to recover its money.

The rule is simple: People with integrity are predisposed to perform; people without integrity are predisposed not to perform. It is best not to get the two confused.

No. 5

"The great personal fortunes in this country weren't built on a portfolio of fifty companies. They were built by someone who identified one wonderful business."

If you do a survey of the super-rich families in America, you will find that almost without exception their fortunes were built on one exceptional business. The Hearst family made their money in publishing, the Walton family in retailing, the Wrigley family in chewing gum, the Mars family in candy, the Gates family in software, and the Coors and Busch families in brewing. The list goes on and on, and almost without exception, anytime they strayed from that wonderful business that made them so amazingly rich, they ended up losing money -- as when Coca-Cola got into the movie business.

The key to Warren's success is that he has been able to identify exactly what the economic characteristics of a wonderful business are -- a business that has a durable competitive advantage that owns a piece of the consumer's mind. When you think of gum you think of Wrigley, when think of a discount store you think of Wal-Mart, and when you think of a cold beer you think of Coors or Budweiser. This elevated position creates their economic power. Warren has learned that sometimes the shortsighted nature of the stock market grossly undervalues these wonderful businesses, and when it does he steps up to the plate and buys as many shares as he can. Warren's company, Berkshire Hathaway, is a collection of some of the finest businesses in America, all of which are super profitable and were bought when Wall Street was ignoring them.

No. 6

"It is impossible to un-sign a contract, so do all your thinking before you sign."

Warren has learned that once you sign, the deal is done. You can't go back and rethink whether it was a good deal or a bad one. So do all your thinking before you sign. This is easier said than done, for once that paper is shoved under your nose, sound reasoning often flies out the

window in the name of getting the deal done. Before signing a contract, imagine all the things that could go wrong -- because they often do go wrong. The road of good intentions is paved with what were foreseeable troubles. Thinking long and hard before you take the leap will save you from having to think long and hard about all the trouble you just signed on for.

Warren forgot to put a noncompete clause in his contract with eighty-nine-year-old Rose Blumkin when he bought her Omaha-based Nebraska Furniture Mart. A few years later Mrs. B. got angry at the way things were being done at the store, so she quit and started up a new store across the street -- stealing tons of business from NFM. After a few years of suffering the stiff competition, Warren caved in and agreed to buy her new store for a cool \$5 million. The second time around he had her sign a noncompete agre...

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