Other Voices

Views from beyond the Barron's staff ▪ *by John Heins*

Birthday Wishes for Warren Buffett

THOUGH I'VE NEVER WRITTEN AN OBITUARY, I have, for years, been assembling thoughts for what I will say when Warren Buffett leaves the scene. Because he has been a peerless figure in the worlds of business and finance for more than five decades, his departure will undoubtedly generate an avalanche of tribute. I was committed to adding a few pebbles of my own.

As the years have passed with, thankfully, no opportunity to share the ideas in my obituary file, it dawned on me that it's silly to wait. Buffett is still around, as active, vibrant, and important as ever, so why postpone words of appreciation? He turns 87 on Aug. 30, so consider this a birthday tribute.

For starters, there's the simplest measure of achievement: Buffett's Berkshire shares are worth about $77 billion—and he has already given away nearly $32 billion worth of them. And while most great fortunes have remarkable stories attached, there's a certain purity to what Buffett has accomplished. He almost certainly saved much of the proceeds he earned at age 6 by buying six-packs of Coca-Cola and reselling them individually at a 20% markup, so it's not a stretch to say he has turned that initial pocket change into unfathomable wealth through one sound business and investing decision after another over 80 years. Considering how difficult it is in free markets to sustainably succeed in both business and investing, Buffett's achievement is a very big deal indeed.

In *Buffett: The Making of an American Capitalist*, Roger Lowenstein wrote that "Buffett's character and career unfolded as a sort of public tutorial on investing and on American business." To cite just one example, at the height of the financial crisis in October 2008, Buffett wrote an essay for the New York Times under the headline, "Buy American. I Am."

Using a measured tone that was in short supply at the time, he calmly laid out his case for buying U.S. stocks for his personal account, which had previously held only U.S. government bonds. Repeating his long-held investing advice to "be fearful when others are greedy, and be greedy when others are fearful," he succinctly offered up timeless wisdom and timely advice:

"I haven't the faintest idea as to whether stocks will be higher or lower a month—or a year—from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over.

"Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky's advice, 'I skate to where the puck is going to be, not to where it has been.' "

As with most of Buffett's advice, this wasn't just something we collectively needed to hear at the time, although it certainly was. It also turned out to be right.

Despite his cordial demeanor, make no mistake, Buffett is a steely businessman. In just one of hundreds of telling anecdotes, a trader at Salomon Brothers recounted how Buffett in the early 1970s was in the market for less-than-robust bank stocks like Harris Trust. He got a call that a block of Harris stock was available at the market price of about $49, on which he offered $47. Taken aback, the offering party came back with a bid of $48.50, assuming that was enough of a discount to the market price to get a deal done, at which point Buffett walked away. As the seller hit the Street to sell the stock, without any takers, the market price fell, and when it was around $44, he came back to Buffett offering to sell at that lower price. Buffett's response: "I'll pay $42."

No tribute to Buffett would be complete without his own words. Some of my favorites:

- On what he looks for in businesses: "I want a very valuable castle, with a duke in charge of it who is very honest and hardworking and able. Then I want a moat around that castle."
- On what he looks for in managers: "We look for three things: intelligence, energy, and integrity. If they don't have the latter, then you should hope they don't have the first two either. If someone doesn't have integrity, then you want him to be dumb and lazy."
- On why he doesn't invest in gold: "You could take all the gold that's ever been mined, and it would fill a cube 68 feet in each direction. For what that's worth at current gold prices, you could buy all—not some—of the farmland in the U.S. Plus, you could buy 16 Exxon Mobils, plus have $1 trillion of walking-around money. Or you could have a big cube of metal. Which would you take? Which is going to produce more value?"
- On the necessity for adaptation: "When we took over [Berkshire Hathaway] in 1965, its risks could have been encapsulated in a single sentence: 'The northern textile business in which all of our capital resides is destined for recurring losses and will eventually disappear.' That development, however, was no death knell. We simply adapted. And we will continue to do so."

Buffett's storied business career began at age 6.

Chris Goodney/Bloomberg

Buffett's lessons often go well beyond analyzing businesses and making investments. Here's a favorite on career choices:

"There comes a time when you ought to start doing what you want. I think you are out of your mind if you keep taking jobs that you don't like because you think it will look good on your résumé. Isn't that a little like saving up sex for your old age?"

"There comes a time when you ought to start doing what you want. I think you are out of your mind if you keep taking jobs that you don't like because you think it will look good on your résumé. Isn't that a little like saving up sex for your old age?"

With all I've learned about Buffett and value investing over the years, I still believe nothing captures his legacy better than these words of his own, as shared with a group of Dartmouth College M.B.A. students in 2005:

"An example is the best thing you can leave behind. Obviously, you want to leave the right example. I mean, Wilt Chamberlain's tombstone may say, 'At last, I sleep alone,' and that's probably not the example you want to leave. If what I've done with Berkshire—running a unique and independent company in true pursuit of shareholder value—persists and people learn from it to improve the way they invest and run their companies, that would be a fine legacy to leave."

Mission accomplished. Happy birthday! ■

JOHN HEINS is the C.T. Fitzpatrick Professor of Value Investing at the University of Alabama and the Editor in Chief of *Value Investor Insight.*