

Tuesday, January 25, 2005

## **The Wisdom of Warren Buffett**

I spent 6 hours last week in Omaha with Warren Buffett. As I walked into the meeting I was pleasantly surprised to find Mr. Buffett dressed more like a scroungy sophomore chemistry student than the greatest investor of all time. It was an open Q&A session with some of my colleagues and me for about 3 hours.

Going into the meeting, I was thinking that I would receive a great deal of advice about investing and how to quantify intrinsic value. I figured he'd tell us all about "Mr. Market" and how his favorite holding period is forever. Then I figured we'd get around to his bet on the Euro or his belief that the market is irrational and inefficient. Or perhaps the second richest man in the world would, I don't know, talk about money?

Total time spent talking about any of the above: Zero. Zilch. Nada.

Let's get to what he DID talk about. As a big fan of "Top" lists, I've compiled the "Top 5" things (prioritized) I learned from Warren Buffett that day:

### **1. Be Grateful -**

There are roughly 6 Billion people in the world. Imagine the worlds biggest lottery where every one of those 6 Billion people was required to draw a ticket. Printed on each ticket were the circumstances in which they would be required to live for the rest of their lives.

Printed on each ticket were the following items:

- Sex
- Race
- Place of Birth (Country, State, City, etc.)
- Type of Government
- Parents names, income levels & occupations
- IQ (a normal distribution, with a 66% chance of your IQ being 100 & a standard deviation of 20)
- Weight, height, eye color, hair color, etc.
- Personality traits, temperament, wit, sense of humor
- Health risks

If you are reading this blog right now, I'm guessing the ticket you drew when you were born wasn't too bad. The probability of you drawing a ticket that has the favorable circumstances you are in right now is incredibly small (say, 1 in 6 billion). The probability of you being born as your preferable sex, in the United States, with an average IQ, good health and supportive parents is miniscule.

Warren spent about an hour talking about how grateful we should all be for the circumstances we were born into and for the generous ticket we've been offered in life. He said that we should not take it for granted or think that it is the product of something we did - we just drew a lucky ticket. (He also pointed out that his skill of "allocating capital" would be useless if he would have been born in poverty in Bangladesh.)

## **2. Be Ethical & Fair**

Continuing on the analogy above, consider this scenario:

Imagine that you were selected as the one person (out of 6 Billion) to create the systems of the world. This includes the type of government, social programs, tax systems, military systems, job markets, laws, regulations, etc.

The only catch was this: You had to come up with systems that you believed were fair and that you wanted to live with, before you were allowed to look at your ticket.

When Warren talked about this it made me reconsider the definition of ethical behavior - what type of system would you create if you didn't know what ticket you had drawn? Would you take a different position on some of the programs you are for or against if you were surrounded by a different set of circumstances?

## **3. Be Trustworthy**

This may be a minor point that Mr. Buffett was trying to make, but he told a simple story that affected me greatly. He told of the Founder of the Nebraska Furniture Mart, one of his companies, and how she came from a poor Jewish family and couldn't read, write or speak English. She had survived the Holocaust, spent 16 years bringing her family to the U.S. (at \$50 per person), and grew the Nebraska Furniture Mart from a \$500 initial investment to do \$350 Million annually from a single location in Omaha.

She told Warren at one point that the way she evaluated people was simple: She simply asked herself, "Would they hide me?" What a great way to judge your instincts about whether to trust someone or not.

## **4. Invest in Your Circle of Competence**

Warren talked at length about investing within your circle of competence. This applies as much to entrepreneurship as it does to investing in public securities. One thing that continually amazes me is how much discipline Warren has in never letting himself get excited about a deal that he doesn't understand. He understands his weaknesses, limitations, and the types of businesses that he gets.

He said that it is crucial that people clearly recognize what they don't understand, and place their effort and energy on businesses or career paths that allow them to bet big on

themselves doing something that they do understand. He said that it's "not so important how big the circle is, but it's important that you know where the perimeter is, and when you're outside of it."

## **5. Do What You Love**

Perhaps the reason that we've heard this a million times is that it's true. Warren talked at length about how excited he is to wake up in the morning and to do what he loves. He talked about how important it is to have the freedom in your life to paint your own canvas any way that you like. He said that many people talk about how they are going to just work at a high-paying job "for a little while" and then go do what they love - he equated that to "saving up sex for old age." He said to "never do something that doesn't excite you or that you dislike."

Not the advice you'd expect from somebody worth over \$40 Billion?

I only hope that as I gain success throughout my career that I can mirror the image of humility, charity, intelligence, optimism and justice that Warren Buffett represents.