

R O B E R T P . M I L E S

How to Build Wealth Like Warren Buffett



*Principles and Practical Methods
Used by the World's Greatest Investor*

G U I D E B O O K

Robert Miles'

HOW TO BUILD WEALTH LIKE WARREN BUFFETT: Principles and Practical Methods Used by the World's Greatest Investor

Reference Guidebook

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Introduction

Welcome to Robert Miles' *How to Build Wealth Like Warren Buffett: Principles and Practical Methods Used by the World's Greatest Investor*. This audio/video program and the accompanying guidebook have been created to aid you in learning more about the wise and abundant world of Warren Buffett, along with gaining a greater understanding of exactly what your investment principles and strategies are.

Warren's uncompromising work ethic, combined with his shrewd investment strategies, have made him one of the richest and most respected men the world over. Acclaimed author and Buffett expert Robert Miles brings to light Warren Buffett, the man, along with his simple yet highly effective business and investing principles. You will be both inspired and motivated as Robert recounts the story of how Warren Buffett single-handedly became a self-made billionaire solely by investing in stocks and businesses that he believed in. You will learn how a simple \$100 investment that he made in 1957 grew into the billions that have made him the world's second richest individual to date.

At a time when "get rich quick" money-making schemes are on the rise, it is both inspiring and refreshing to gain the insights of a man who accumulated his wealth with good old-fashioned, long-term and time-proven value investment strategies.

To achieve the maximum benefits from this program, listen to each audio session at least twice, ideally three times. Listening to the audio session several times allows it to sink into your subconscious mind as you make more and more discoveries each time that you listen. Be sure to keep a paper and pen nearby as you are listening, and be prepared to stop the program when you hear an idea or strategy that particularly appeals to you. Think about that idea in connection with your situation, your work, your life-style, then prepare a plan to act upon it in the days ahead. Take the time to study the information provided in this Reference Guide and work through the various probing questionnaires within it.

Statistics about Mr. Buffett's publicly traded investment firm Berkshire Hathaway [NYSE:BRKA] have been provided in the Appendix so that you may review in greater detail how he invests, and what he invests in. You may wish to study them in order to clarify your own investment principles and strategies through research and comparison.

Should you wish to take action on any of the insights that you have gained, we suggest that whenever possible you give yourself a deadline, and be committed to following through on that deadline. Without implementing any of the action steps that you have mapped out for yourself, this program simply becomes an exercise in listening. In order to gain the full benefits that this valuable program has to offer you, make the decision here and now to work through this program, act upon your insights and strategies, and achieve the kind of results in your life that you've never thought possible.

The Buffett CEO Assessment Quiz

Do You Have What It Takes to Report to Warren Buffett?

Take the following assessment quiz based on the book *The Warren Buffett CEO: Secrets from the Berkshire Hathaway Managers* by Robert P. Miles and find out if you have what it takes to report to “the best boss in the world,” Warren Buffett.

Circle your answer.

1. When do you plan to retire?

- A.) I want a life after work and plan to retire before age 50.
- B.) I like traditional mandatory retirement and want to spend time with my family, so I will work to age 65.
- C.) Like the Supreme Court Justices, I want a job for life.

2. If you had to choose between receiving \$100 million and your business, which would you choose?

- A.) I would take the money and run.
- B.) I love my business like a child and it isn't for sale at any price.
- C.) Given the choice I would take both. Give me a fair price for my business and let me continue to run it the same way I have always run it.

3. How concentrated is your personal portfolio?

- A.) I would never have all of my net worth in one company but would broadly diversify across a wide range of equities.
- B.) Some of my portfolio is in high-risk special situations but most is in solid blue chip companies.
- C.) I see no reason to diversify and have all of my net worth in one company.

4. Who are your heroes?

- A.) I tend to look at sports, Hollywood, and media celebrities.
- B.) Other business CEOs who have made it big.
- C.) My boss and/or my mother and/or my father.

5. What type of industry do you prefer to work in?

- A.) I prefer the new economy with the latest in technological innovations.
- B.) My preference is a multinational conglomerate with several cutting-edge divisions.
- C.) Give me a boring old economy-style business that has a durable competitive advantage and predictable profits.

6. What is your attitude toward corporate culture and synergy?

- A.) I would love to merge my business and division into a larger enterprise. There would be immediate benefits to eliminating duplication and creating buying cooperatives.
- B.) Whenever you combine two businesses together you will find synergies.
- C.) Best to leave good profitable businesses alone. Merge with no synergy expectations.

7. What is the best use of corporate profits?

- A.) Return profits to shareholders in the form of dividends.
- B.) Expand the business with additional locations and/or buying competitors.
- C.) Assign the responsibility to one person to allocate capital in the best possible way.

8. If you had all or a substantial amount of your net worth in one publicly traded stock:

- A.) You would check on the price of the stock daily or even several times a day.
- B.) You would diversify and not have all of your net worth in one stock.
- C.) You would occasionally check on the stock price, maybe once a week.
The price doesn't really matter because you don't intend to sell it anyway.

9. Best way to become a Buffett CEO:

- A.) Do a good job for a competitor and be recruited after a nationwide search.
- B.) Belong to the right golf club and mingle in the right social circles.
- C.) Be fortunate enough to be born into it or work most of your life for the business and be promoted into it based on merit and loyalty.

10. Your business was founded:

- A.) Recently, with a fabulous business model that takes advantage of new technologies.
- B.) Founded 30 years ago with a strong management team in place.
- C.) Founded before 1967 and before Warren Buffett started managing Berkshire Hathaway.

Answer Key:

"C" is the correct answer for every question.

How Did You Do?

1–5 correct answers: Keep your day job.

6–8 correct answers: Buffett CEO potential.

9–10 correct answers: Call Warren Buffett today.

Creating Your Own Investment Philosophies

Robert suggests that you create an investment strategy and stick to it through up times and down times in the market. Several Warren Buffett modeled investing philosophies that he outlines are:

a. PUT THEM IN WRITING: There's something about writing that helps crystallize your thinking and acts as a guidepost during major market swings from the inevitable greed to fear and vice versa. Mr. Market (a term used by Ben Graham to define the market swings from greed to fear and back again) can only be tamed with written beliefs. Investment principles help you with the right temperament as well. Like teaching, in order to write you need to first comprehend. And there's no better teacher than experience.

b. READ ABOUT DEVELOPING A PHILOSOPHY: Second best is reading about other successful investors, which is why there's great interest in Warren Buffett and Berkshire Hathaway. Phil Fisher's book *Common Stocks and Uncommon Profits* has an excellent section on developing an investment philosophy.

c. MAKE IT PERSONAL: You can mimic someone else's philosophy or develop your own. Your best philosophy is the one you develop for yourself. While it is wise to read and study other philosophies, it is generally not a good idea to copy another's beliefs word for word. The problem with imitation is that the imitator doesn't truly understand what he is copying. Original thought is always recommended.

d. ORIGINS OF A PHILOSOPHY: First you have to have an interest in investing. It usually starts at a young age, and either you have more of an interest in saving and investing or you have a more common interest in spending and consuming. Rarely do you see a saver become a spender or a consumer become an investor. You can read all you want about investment philosophies, but nothing beats real life experiences. It takes time, experience, and mistakes — a lot of them to develop an investment philosophy.

Investing is an evolution. It's a process that with a philosophy can bring great financial rewards and peaceful sleep.

An investing philosophy requires certain principles in order to achieve success. Investing is and always has been a combination of science and art, but also an act of faith because it's about the future, and by definition the future is unknown. Faith is merely the belief in a positive future outcome. Worry and fear are the opposite. Worry is faith in a negative future outcome. How many times have you heard that past investment returns are no guarantee of future results?

So any investment belief system needs a philosophy. And many diverse investment philosophies can lead to similar results. But in my case you choose to study the origins of successful investors to find out what you can learn about their principles.

e. DECLINING MARKETS: Certain experiences shape the investor and his/her philosophies. And nothing better can happen to an investor than to buy a stock that declines. This decline will test your investment beliefs about this stock more than any stock price increase. Rising markets will spawn more investment geniuses than we have ever seen. Your measure as an investor is how your philosophies hold up during turbulent times.

f. BACK TESTING DOESN'T WORK: Unfortunately the investment world is full of Monday morning quarterbacks. Back testing just about any investment philosophy isn't a true test. Just about any fifth grader can look at the past and weave a brilliant investment scenario. Warren suggests that unfortunately most of us invest looking backwards or "like driving a car with the rearview mirror." Remember to invest looking in front of you, out the windshield.

g. MISTAKES: Explain your mistakes and how you have learned from them. Detail how your investment mistakes have made you a better investor. Explain how you have grown and evolved as an investor. It's the admission of mistakes and how you have picked yourself up from them that is the measure of the investor, not your successes. Ninety-eight percent of us are ready to tell the world about all of our genius moves in buying pieces of a business. It's the rare individual who talks about decisions that we thought were signs of genius but were far from it. Great investors do post mortems. Explain how you thoroughly analyzed your decision to buy a company and later changed your mind and sold it. Tell about your get-rich-quick schemes that no one else has ever heard of or tried. The best investment philosophy is born out of your mistakes. It becomes a sign that you have learned from experience.

h. INDEPENDENT THOUGHT: A proper investment philosophy must prove your ability to move against the grain and to think independently. All great investors both professional and individual have a common characteristic of contrarian opinion. As soon as someone tells me they believe in a guru, even if they say the guru is Mr. Buffett, they immediately red flag themselves as group thinkers. Independent thinkers make no mention of gurus in their investment philosophy.

i. PATIENCE: No investment belief can be proven in the short term. Phil Fisher asked his clients to give him at least three years to prove himself. Too many of us are unfit for investment decision making because of our short-term nature. If Fisher wanted three years from his clients for proper evaluation, he also gave his investees (the stocks he owned) three years to prove their merit as well. Few of us can demonstrate stock fidelity. Unfortunately most of us, including the professionals, simply rent stocks instead of owning them indefinitely like Warren Buffett does.

j. COMPARISONS: All philosophies should be compared against those of others who have a well-developed and written set of them. The best comparison is against those who have used their beliefs to beat the market over long periods of time. Your results should be compared to how much value you have added to the S&P index over time. If your investment beliefs don't add value then you should reconsider your written philosophy.

k. EXCEPTIONS: Fisher proved there are exceptions to every rule and he did admit to acting against his written investment principles. He had a three-year rule. He asked his clients to give him the same amount of time to prove his investment talents and he believed in treating his investees the same. Occasionally, not just once, he broke his three-year rule and sold a company before three years.

l. MARKET TIMING AND EFFICIENT MARKET THEORISTS: Some investment beliefs work well in the short term and are even taught at major universities. Look at all the major media sponsors of investing games that involve short-term trading. Even *The Wall Street Journal* is guilty of sponsoring professionals against the dartboard over a ridiculous short-term period. Like most financial

pundits and opinion makers, these games promote that which runs contrary to my written investment philosophies.

Your written investment philosophy should speak to these two issues. Do you believe in market timing? If not, do you have a minimum holding period like Fisher (three years) or like Buffett (ten years)? Secondly, do your beliefs address efficient markets? Do you believe opportunities exist because Mr. Market doesn't properly value a stock that you have researched and understand its intrinsic value? What do your principles say about an anticipation of a declining market? Do you sell or stay the course?

m. DO A FEW THINGS WELL: Nobody can be good at everything and no investor can properly follow more than a few stocks. Warren Buffett's mentor Ben Graham called this your "circle of competence." Phil Fisher calls this "doing a few things well." Make sure your principles define your competence.

n. THE MOST IMPORTANT THING: Whatever your investment philosophy, whatever your beliefs, have a written set of investment principles. And remember what Mr. Buffett says about principles. They are principles because they don't change with the latest fad.

Based on the suggestions above, take some time to write out your investment philosophies in the space provided below.

Lou Simpson's Five Investment Principles

1. Think independently. "We try to be skeptical of conventional wisdom," he says, "and try to avoid the waves of irrational behavior and emotion that periodically engulf Wall Street. We don't ignore unpopular companies. On the contrary, such situations often present the greatest opportunities."
2. Invest in high-return businesses that are run for the shareholders. "Over the long run," he explains, "appreciation in share prices is most directly related to the return the company earns on its shareholders' investment. Cash flow, which is more difficult to manipulate than reported earnings, is a useful additional yardstick. We ask the following questions in evaluating management: Does management have a substantial stake in the stock of the company? Is management straightforward in dealings with the owners? Is management willing to divest unprofitable operations? Does management use excess cash to repurchase shares? The last may be the most important. Managers who run a profitable business often use excess cash to expand into less profitable endeavors. Repurchase of shares is in many cases a much more advantageous use of surplus resources."
3. Pay only a reasonable price, even for an excellent business. "We try to be disciplined in the price we pay for ownership even in a demonstrably superior business. Even the world's greatest business is not a good investment," he concludes, "if the price is too high. The ratio of price to earnings and its inverse, the earnings yield, are useful gauges in valuing a company, as is the ratio of price to free cash flow. A helpful comparison is the earnings yield of a company versus the return on a risk-free long-term United States Government obligation."

4. Invest for the long-term. “Attempting to guess short-term swings in individual stocks, the stock market, or the economy,” he argues, “is not likely to produce consistently good results. Short-term developments are too unpredictable. On the other hand, shares of quality companies run for the shareholders stand an excellent chance of providing above-average returns to investors over the long term. Furthermore, moving in and out of stocks frequently has two major disadvantages that will substantially diminish results: transaction costs and taxes. Capital will grow more rapidly if earnings compound with as few interruptions for commissions and tax bites as possible.”

5. Do not diversify excessively. “An investor is not likely to obtain superior results by buying a broad cross-section of the market,” he believes. “The more diversification, the more performance is likely to be average, at best. We concentrate our holdings in a few companies that meet our investment criteria. Good investment ideas — that is, companies that meet our criteria — are difficult to find. When we think we have found one, we make a large commitment. The five largest holdings at GEICO account for more than 50% of the stock portfolio.”

Source: The Warren Buffett CEO by Robert P. Miles

Phil Fisher's Timeless Investment Philosophies, Principles and Questions

Phil Fisher's Eight Investment Philosophies

1. Buy companies that have disciplined plans for achieving dramatic long-range growth in profits and that have inherent qualities making it difficult for newcomers to share in that growth.
2. Buy companies when they are out of favor.
3. Hold a stock until either (a) there has been a fundamental change in its nature (i.e., weak management changes) or (b) it has grown to a point where it no longer will be growing faster than the economy as a whole.
4. De-emphasize the importance of dividends.
5. Making some mistakes is an inherent cost of investing. Taking small profits in good investments and letting losses grow in bad ones is a sign of abominable investment judgment.
6. There are a relatively small number of truly outstanding companies. Funds should be concentrated in the most desirable opportunities. Any holding of over twenty different stocks is a sign of financial incompetence.
7. Neither accept blindly whatever may be the dominant opinion in the financial community at the moment nor reject the prevailing view just to be contrary for the sake of being contrary.
8. Success greatly depends on a combination of hard work, intelligence, and honesty.

Phil Fisher's 15 Questions to Ask Yourself When Buying a Business

1. Does the company have products or services with sufficient market potential to make possible a sizable increase in sales for at least several years?
2. Does the management have a determination to continue to develop products or processes that will still further increase total sales potentials when the growth potentials of currently attractive product lines have largely been exploited?
3. How effective are the company's research and development efforts in relation to its size?
4. Does the company have an above average sales organization?
5. Does the company have a worthwhile profit margin?
6. What is the company doing to maintain or improve profit margins?
7. Does the company have outstanding labor and personnel relations?
8. Does the company have outstanding executive relations?
9. Does the company have depth to its management?
10. How good are the company's cost analysis and accounting methods?
11. Are there other aspects of the business, somewhat peculiar to the industry involved, that will give the investor important clues as to how outstanding the company may be in relation to its competition?
12. Does the company have a short-range or long-range outlook in regards to profits?
13. In the foreseeable future, will the growth of the company require sufficient equity financing so that the large number of shares then outstanding will largely cancel the existing benefit from this anticipated growth?
14. Does the management talk freely to investors about its affairs when things are going well but "clam up" when troubles and disappointments occur?
15. Does the company have a management of unquestionable integrity?

Source: Common Stocks and Uncommon Profits by Phillip Fisher

Intriguing Statistics and Strategies

Buffett's conglomerate Berkshire Hathaway, publicly traded on the NYSE under the symbol BRKA, is now the 25th largest employer with over 140,000 employees. It is the largest private employer in the state of Georgia. His NetJets subsidiary can be considered the sixth largest private airline, based on number of corporate jets under management. All of this and no large headquarter staff, no options, no funny accounting, no yachts, no Rolls Royces, no mansions or typical trappings of wealth.

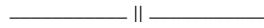
Warren has the longest CEO tenure of 37 years and counting. To give you a perspective of Warren's investment record, consider in the last century the DJIA went from 66 to 11,000. The NASDAQ born in 1971 went from 100 to 2000. Beginning in 1965 when Warren bought control of Berkshire Hathaway, it has added one zero to its stock price every decade — from 7 to 70 to 700 to 7,000 to 70,000. Now it's the highest price of any stock on any stock exchange in the world and he's proud of it, following his passion and doing exactly what he was born to do. No retirement plans, except, he jokes, five to ten years after his death. Asking him to name a replacement and retire would be like asking Picasso to stop painting. Berkshire is his masterpiece. He owns outright over 100 wholly owned businesses — from Dairy Queen to World Book Encyclopedia to GEICO auto insurance. He also owns over \$30 billion in stocks, including Coca-Cola, American Express and Gillette.

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The three qualities most admired by Warren Buffett are intellect, character, and temperament.

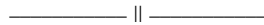
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1. Concentrate your investments in world-class companies managed by strong management.
2. Limit yourself to companies you truly understand; 5–10 is good, more than 20 is asking for trouble.
3. Select the very best and concentrate your investment.



Robert sites just some of the traits that he values in Warren Buffett:

- Integrity
- Maintaining an excellent reputation
- Intelligence
- Discipline
- Respect
- Humility
- Humor
- Denial of instant gratification
- Rewarding others where due
- Frugality
- Choosing the right partner
- Maintaining good health
- Remaining debtless
- Simple-living
- Giving your children enough without providing too much
- Disregarding old age



Robert illustrates the many categories of investor types as being:

- Faddists [want to know what the latest trend is]
- Fortune tellers [do what their psychic suggests, charts, or read tea leaves]
- Delegators [turning their investments over to someone else]
- Validators [have to look over every decision that is made and approve it]
- Technicians [follow the technical indicators]
- Contrarians [do the opposite of the crowd]
- Guru followers [believe someone wiser than them can guide them to financial heaven]
- Mountain climbers [like to get up above and look down at the macro economics of what is going on in the markets, they concern themselves with what interest rates are doing and whether it is a bear or bull market]
- Random walkers [whatever is known about a stock is already reflected in the price]
- Lemmings [follow the crowd]
- Valuers [dig into the business to discover what it is really worth to determine if they would like to be an owner]

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Commonly Referred to Sayings of Warren Buffett

- The critical investment factor is determining the intrinsic value of a business and paying a fair or bargain price.
- Never invest in a business you cannot understand.
- Risk can be greatly reduced by concentrating on only a few holdings.
- Stop trying to predict the direction of the stock market, the economy, interest rates, or elections.
- Buy companies with strong histories of profitability and with a dominant business franchise.
- You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right.
- Be fearful when others are greedy and greedy only when others are fearful.
- Unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market.
- It is optimism that is the enemy of the rational buyer.
- As far as you are concerned, the stock market does not exist. Ignore it.
- The ability to say “no” is a tremendous advantage for an investor.
- Much success can be attributed to inactivity. Most investors cannot resist the temptation to constantly buy and sell.
- Lethargy, bordering on sloth, should remain the cornerstone of an investment style.
- An investor should act as though he had a lifetime decision card with just twenty punches on it.
- Wild swings in share prices have more to do with the “lemming-like” behavior of institutional investors than with the aggregate returns of the company they own.
- As a group, lemmings have a rotten image, but no individual lemming has ever received bad press.
- An investor needs to do very few things right as long as he or she avoids big mistakes.

- “Turn-arounds” seldom turn.
- Is management rational?
- Is management candid with the shareholders?
- Does management resist the institutional imperative?
- Do not take yearly results too seriously. Instead, focus on four- or five-year averages.
- Focus on return on equity, not earnings per share.
- Calculate “owner earnings” to get a true reflection of value.
- Look for companies with high profit margins.
- Growth and value investing are joined at the hip.
- The advice “you never go broke taking a profit” is foolish.
- It is more important to say “no” to an opportunity than to say “yes.”
- Always invest for the long term.
- Does the business have favorable long-term prospects?
- It is not necessary to do extraordinary things to get extraordinary results.
- Remember that the stock market is manic-depressive.
- Buy a business, don’t rent stocks.
- Does the business have a consistent operating history?
- Wide diversification is only required when investors do not understand what they are doing.
- An investor should ordinarily hold a small piece of an outstanding business with the same tenacity that an owner would exhibit if he owned all of that business.

(Extracted from various books on Buffett including Buffett: The Making of an American Capitalist; Warren Buffett Speaks; Buffettology; The Warren Buffett Way; Of Permanent Value; and Thoughts of Chairman Buffett: Thirty Years of Unconventional Wisdom from the Sage of Omaha)

Notables and Quotables

English philosopher James Allen said, “Circumstances define you and you attract not what you want but rather what you are.”

Regarding the difference between being rich and being wealthy, Stephen Swid wrote, “Being rich is having money. Being wealthy is having time.”

Proverbs states, “He that maketh haste to be rich shall not be innocent.”

There are no ethical shortcuts to accumulating wealth like Warren Buffett has. There are no specific, latest, or hot stock picks. Quoting from *Money* magazine in 1987, “There is no reason in the world you should expect some broker to be able to tell you whether you can make money on index futures or options or some stock in two months. If he knew how to do that, he wouldn’t be talking to investors. He’d have retired long ago.”

A lady stood up at Berkshire’s annual meeting and said, “Mr. Buffett I only have one b share.” And he interrupted her and said, “That’s okay lady, between you and me we own half the company, what is your question?”

Warren writes, “Sometimes traditional wisdom can be long on tradition and short on wisdom.” His principles are long on wisdom and short on tradition.

Think independently and get no satisfaction with following the crowd. In fact, to build Buffett wealth you must operate differently from everyone else. As Warren is most often quoted, “Be fearful when others are greedy and greedy when others are fearful.”

Ralph Waldo Emerson said, “Man was born to be rich, or grow rich by use of his faculties, by the union of thought with nature. Property is an intellectual production. The game requires coolness, right reasoning, promptness, and patience in the players.”

Active investors need to read, research, and understand before you act. You need to be an intelligent investor not an emotional one. Professor Graham said, “In the short run the stock market is a voting machine, but in the long run it is a weighing machine.” Meaning short-term stock movements are determined by popularity or lack of it, but in the long run it’s all about the earning or weight of the business you own.

One of Warren Buffett’s famous quotes is, “Price is what you pay, value is what you get.”

When he was asked how he learned so much about stocks, Warren said that he “went to the library and started with the A’s and read every public company’s annual report.” Ask yourself how often you follow financial news and whether or not you enjoy being an active investor or if you prefer to be a passive investor.

How do you define risk? Many think that you can reduce risk by diversifying and buying two of everything. Warren calls this the “Noah’s ark investor.” If you buy two of everything you soon end up with a zoo for a portfolio. Risk as defined by Warren is “not knowing what you are doing.” According to Peter Lynch, most people diversify, or “diworsify,” out of ignorance. If you know how to value businesses and buy them at attractive prices then you want to buy more of what you own, not more of something else less attractive.

Fisher wrote, “Sustained success requires skill and consistent application of sound principles.”

Warren’s management style can be summarized in four words, “Hire well manage little.”

“Warren Buffett is a value investor and a values manager.” — Robert Miles

Famous economist John Maynard Keynes stated, “One’s knowledge and experience are definitely limited and there are seldom more than two or three enterprises at any given time in which I personally feel myself entitled to put full confidence.”

Charlie Munger said, “In the United States, a person or institution with almost all wealth invested, long term, in just three fine domestic corporations is securely rich.”

“Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now,” wrote Warren Buffett in his 1996 letter to investors.

Fisher said, “Taking small profits in good investments, and letting losses grow in bad ones is a sign of abominable investment judgment. A profit should never be taken just for the satisfaction of taking it. Contrary to standard dogma, there are a relatively small number of truly outstanding businesses.”

Warren Buffett states, “With each investment you make, you should have the courage and the conviction to place at least ten percent of your net worth in that stock.”

“There are two mistakes one can make along the road to truth — not going all the way and not starting.” — Buddha

“Never do anything in business that you wouldn’t want published on the front page of your local newspaper. It takes 20 years to build a reputation and five minutes to destroy it. If you think about that, you might do things differently.”
— Warren Buffett

“A man of genius makes no mistakes. His errors are volitional and are the portals of discovery.” — James Joyce

Pearl Bailey once said, “I have been poor and I have been rich. I prefer rich.”

“The higher you go up, the more mistakes you are allowed. Right at the top, if you make enough of them, it’s considered to be your style,” said famed dancer Fred Astaire.

Albert Einstein stated, “Anyone who has never made a mistake has never tried anything new.”

“An investor needs to do very few things right as long as he or she avoids big mistakes,” wrote Warren Buffett.

In his 1997 letter, Warren Buffett wrote about discipline, “Under these circumstances [unreasonable stock valuations], we try to exert a Ted Williams kind of discipline. In his book *The Science of Hitting*, Ted explains that he carved the strike zone into 77 cells, each the size of a baseball. Swinging only at balls in his ‘best’ cell, he knew, would allow him to bat 400; reaching for balls in his ‘worst’ spot, the low outside corner of the strike zone, would reduce him to 230. In other words, waiting for the fat pitch would mean a trip to the Hall of Fame; swinging indiscriminately would mean a ticket to the minors.”

“Only two times in a man’s life when he should not speculate: when he can’t afford it, and when he can,” wrote Mark Twain.

James Allen said, “Circumstance does not make the man, it reveals him to himself. Men do not attract that which we want, but that which they are.”

“Character is power,” said John Howe. “It makes friends, draws patronage and support, and opens the way to wealth, honor, and happiness.”

“Men of genius are admired, men of wealth are envied, men of power are feared; but only men of character are trusted.” — Author unknown

Mahatma Gandhi stated, “There are seven sins in the world: pleasure without conscience, knowledge without character, worship without sacrifice, science without humanity, politics without principle, commerce without morality, and wealth without work.”

“To live content with small means,” observed William Henry Channing, “to seek elegance rather than luxury, and refinement rather than fashion; to be worthy, not respectable, and wealthy, not rich; to study hard, think quietly, talk gently, act frankly; to listen to stars and birds, to babes and sages, with open heart; to bear all cheerfully, do all bravely, await occasions, hurry never. In a word, to let the spiritual, unbidden, and unconscious grow up through the common. This is to be my symphony.”

Robert Miles highly recommends that you read Warren Buffett’s letters to shareholders online at www.berkshirehathaway.com.

Appendix A

Berkshire's Corporate Performance vs. the S&P 500

Year	Annual Percentage Change		
	in Per-Share Book Value of Berkshire (1)	in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5

1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	.7
1998	48.3	28.6	19.7
1999	.5	21.0	(20.5)
2000	6.5	(9.1)	15.6
2001	(6.2)	(11.9)	5.7

Average Annual Gain

1965-2001	22.6%	11.0%	11.6%
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Overall Gain

1964-2001	194,936%	4,742%	190,194%
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Notes:

The S&P 500 numbers are **pre-tax** whereas the Berkshire numbers are **after-tax**.

By ranking the previous chart by the last column you will notice that Warren Buffett and Berkshire Hathaway perform best during bear or declining markets.

Source: www.berkshirehathaway.com

Appendix B

Berkshire Hathaway's Publicly Traded Common Stock Portfolio

Shares	Company	12/31/01	
		Cost	Market
		(dollars in millions)	
151,610,700	American Express Company	\$ 1,470	\$ 5,410
200,000,000	The Coca-Cola Company	1,299	9,430
96,000,000	The Gillette Company	600	3,206
15,999,200	H&R Block, Inc.	255	715
24,000,000	Moody's Corporation	499	957
1,727,765	The Washington Post Company	11	916
53,265,080	Wells Fargo & Company	306	2,315
	Others	4,103	5,726
	Total Common Stocks	\$8,543	\$28,675
		=====	=====

Source: 101 Reasons to Own the World's Greatest Investment: Warren Buffett's Berkshire Hathaway written by Robert P. Miles and published by John Wiley and Sons.

Appendix C

Berkshire Hathaway's Acquisition Criteria

We are eager to hear *from principals or their representatives* about businesses that meet all of the following criteria:

1. Large purchases (at least \$50 million of before-tax earnings).
2. Demonstrated consistent earning power (future projections are of no interest to us, nor are “turnaround” situations).
3. Businesses earning good returns on equity while employing little or no debt.
4. Management in place (we can't supply it).
5. Simple businesses (if there's lots of technology, we won't understand it),
6. An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

The larger the company, the greater will be our interest: We would like to make an acquisition in the \$5–20 billion range. *We are not interested, however, in receiving suggestions about purchases we might make in the general stock market.*

We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer — customarily within five minutes — as to whether we're interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

Charlie and I frequently get approached about acquisitions that don't come close to meeting our tests: We've found that if you advertise an interest in buying colliers, a lot of people will call hoping to sell you their cocker spaniels. A line from a country song expresses our feeling about new ventures, turnarounds, or auction-like sales: “When the phone don't ring, you'll know it's me.”

Source: www.berkshirehathaway.com

Appendix D

Berkshire Hathaway's Subsidiary Listing

Acme Building Brands

2821 West 7th Street
Fort Worth, TX 76107-2219
(817) 390-2409
www.brick.com

Ben Bridge Corporation

2901 Third Avenue
Seattle, WA 98121
(206) 448-8800
www.benbridge.com

Benjamin Moore

51 Chestnut Ridge Road
Montvale, NJ 07645
(800) 344-0400
www.benjaminmoore.com

Berkshire Hathaway Credit Corp.

1440 Kiewit Plaza
Omaha, NE 68131
(402) 346-1400

Berkshire Hathaway Homestate Co.

9290 West Dodge Road
Omaha, NE 68114
(402) 393-7255
www.bh-hc.com

Berkshire Hathaway Reinsurance

100 First Stamford Place
Stamford, CT 06902-6745
(203) 363-5200
www.brkdirect.com

Borsheim's Jewelry

120 Regency Parkway
Omaha, NE 68114
(402) 391-0400
www.borsheims.com

The Buffalo News

One News Plaza
Buffalo, NY 14240
(716) 849-3434
www.buffnews.com

CTB Inc.

410 North Higbee
Milford, IN 46542
(574) 658-4191
www.ctbinc.com

Central States Indemnity Co.

1212 No. 96 Street
Omaha, NE 68114-2274
(402) 397-1111
www.csi-omaha.com

CORT Business Services Corp.

11250 Waples Mill Road
Fairfax, VA 22030
(703) 968-8500
www.cort1.com

Dairy Queen

7505 Metro Boulevard
Edina, MN 55439
(952) 830-0200
www.dairyqueen.com

Fechheimer Brothers Co.

4545 Malsbary Road
Cincinnati, OH 45242
(513) 793-5400
www.fechheimer.com

FlightSafety International Inc.

La Guardia Airport
Flushing, NY 11371-1061
(718) 565-4100
www.flightsafety.com

Fruit of the Loom

2 Fruit of the Loom Drive
Bowling Green, KY 42103
(270) 393-8269
www.fruit.com

Garanimals

350 5th Avenue
New York, NY 10118
(800) 759-4219
www.garanimals.com

GEICO

One GEICO Plaza
Washington, DC 20076-0001
(301) 986-3000
www.geico.com

General Cologne Re Corporation

695 East Main Street
Stamford, CT 06904-2351
(203) 328-5000
www.gcr.com

H. H. Brown Shoe Co., Inc.

124 West Putnam Avenue
Greenwich, CT 06830
(203) 661-2424
www.hhbrown.com
www.dextershoe.com

Helzberg's Diamond Shops

1825 Swift
North Kansas City, MO 64116-3671
(816) 842-7780
www.helzberg.com

Johns Manville Corporation

717 17th Street
Denver, CO 80202
(303) 978-2000
www.jm.com

Jordan's Furniture

100 Stockwell Drive
Avon, MA 02322
(508) 580-4600
www.jordansfurniture.com

Justin Brands Inc.

610 West Daggett
Fort Worth, TX 76104
(800) 358-7846
www.justinbrands.com

Kansas Bankers Surety Company

1220 S.W. Executive Drive
Topeka, KS 66615
(785) 228-0000

Larson-Juhl

3900 Steve Reynolds Boulevard
Norcross, GA 30093
(770) 279-5200
www.larsonjuhl.com

MidAmerican Energy Holdings

666 Grand Avenue
Des Moines, IA 50390
(515) 242-4300
www.midamerican.com

MiTek Inc.

14515 North Outer Forty Drive
Chesterfield, MO 63017-5746
(314) 434-1200
www.mitekinc.com

National Indemnity Co.

3024 Harney Street
Omaha, NE 68131
(402) 536-3000
www.nationalindemnity.com

Nebraska Furniture Mart

700 South 72nd Street
Omaha, NE 68114
(402) 397-6100
www.nfm.com

NetJets

581 Main Street
Woodbridge, NJ 07095
(732) 326-3700
www.netjets.com

The Pampered Chef

One Pampered Chef Lane
Addison, IL 60101-5630
(800)266-5562
www.pamperedchef.com

Precision Steel Warehouse

3500 North Wolf Road
Franklin Park, IL 60131
(847) 455-7000
www.precisionsteel.com

R. C. Willey Home Furnishings

2301 South 300 West
Salt Lake City, UT 84115
(801) 461-3900
www.shoprcwilley.com

Scott Fetzer Companies

28800 Clemens Road
Westlake, OH 44145-1197
(440) 892-3000
www.carefreecolorado.com
www.chpower.com
www.kirby.com
www.quikut.com
www.waynepumps.com www.world-
book.com

See's Candies, Inc.

210 El Camino Real
South San Francisco, CA 94080
(650) 761-2490
www.sees.com

Shaw Industries

616 E. Walnut Avenue
Dalton, GA 30720
(706) 278-3812
www.shawinc.com

Star Furniture

16666 Barker Springs Road
Houston, TX 77218
(281) 492-6661
www.starfurniture.com

United States Liability Insurance

190 South Warner Road
Wayne, PA 19087
(610) 688-2535
www.usli.com

Wesco Financial Corp.

301 East Colorado Boulevard
Pasadena, CA 91101-1901
(626) 585-6700

XTRA Corporation

200 Nyala Farms Road
Westport, CT 06880
(203) 221-1005
www.xtracorp.com

Suggested Reading:

**101 Reasons to Own the World's Greatest Investment:
Warren Buffett's Berkshire Hathaway**

by Robert P. Miles

**The Warren Buffett CEO:
Secrets of the Berkshire Hathaway Managers**

by Robert P. Miles

The Intelligent Investor

by Benjamin Graham

Of Permanent Value: The Story of Warren Buffett

by Andrew Kilpatrick

Buffett: The Making of an American Capitalist

by Roger Lowenstein

The Essays of Warren Buffett: Lessons for Corporate America

by Warren Buffett

Common Stocks and Uncommon Profits and Other Writings

by Philip A. Fisher

**Damn Right! Behind the Scenes with Berkshire Hathaway Billionaire
Charlie Munger**

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The Master Strategies of the Rich**
By Steven K. Scott
22560A/22560CD

**Multiple Streams of Income:
How to Generate a Lifetime of Unlimited Wealth**
By Robert G. Allen
13763A/13763CD

**The Fountain of Wealth:
New Rules for Material and Spiritual Abundance in a Changing World**
By Paul Zane Pilzer
22620A/22620CD

**Rich Dad Secrets to Money, Business and Investing
... and How YOU Can Profit from Them**
By Robert T. Kiyosaki
21090A/21090CD

**Laws of Inner Wealth:
Principles for Spiritual and Material Abundance**
By Sir John Templeton
16660A/16660CD

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