Jeremy C. Miller: Warren Buffet’s Ground Rules

"Warren Buffet’s Ground Rules" is a book that provides insight into the investment philosophy and principles of Warren Buffett during his early years as a fund manager. The book was written by Buffett's former daughter-in-law, Jeri C. Miller, who compiled and analyzed the letters that Buffett wrote to his early investment partners.
Here is an explanation of the ground rules that can be inferred from the book:

1. Invest in what you know: Buffett believed in investing in businesses that he understood and could evaluate. He favored businesses with simple and predictable business models that were easy to analyze. Buffett often referred to this as his "circle of competence," and he emphasized the importance of staying within it when making investment decisions.

2. Focus on the long-term: Buffett believed in holding stocks for the long term, and he was willing to wait for the right opportunities to present themselves. He avoided short-term trading and speculation. Buffett often referred to this as his "20-year rule," which meant that he would only invest in companies that he believed would still be profitable 20 years from now.

3. Buy undervalued stocks: Buffett looked for undervalued stocks that had strong fundamentals and a competitive advantage. He believed that the stock market was often irrational and that there were opportunities to buy good companies at a discount. Buffett's approach to finding undervalued stocks involved analyzing a company's financial statements, looking for stocks that were trading below their intrinsic value, and buying when the market was pessimistic about the company's future prospects.

4. Look for strong management: Buffett believed that the quality of a company's management was a key factor in its success. He looked for companies with honest and competent management teams that had a long-term vision for the company. Buffett often emphasized the importance of investing in companies with "good jockeys" (i.e., strong management teams) rather than "bad horses" (i.e., weak companies).

5. Avoid debt: Buffett was wary of companies with high levels of debt, as he believed that it made them vulnerable to economic downturns and could limit their ability to invest in growth opportunities. Buffett's aversion to debt extended to his personal life as well, as he preferred to pay cash for his purchases rather than take on debt.

6. Be patient: Buffett was known for his patience and discipline when it came to investing. He believed that it was important to wait for the right opportunities to present themselves and to avoid impulsive decisions. Buffett often referred to this as his "cigar butt" approach to investing, which meant that he would look for companies that were undervalued and had been discarded by the market, but still had a few puffs left in them.

7. Focus on intrinsic value: Buffett believed that a company's true value was determined by its intrinsic value, which was based on its earnings, cash flow, and assets. He looked for companies that were undervalued relative to their intrinsic value. Buffett's approach to valuing companies involved analyzing a company's financial statements, projecting future cash flows, and discounting them back to their present value.