# The Essays of Warren Buffett Summary

## Quotes

The best managers think like owners when making business decisions.

Managers must have shareholders interests at heart.

Issue stock when overpriced, to get the most funding for the new shares.

The double barreled approach to buying: Buy less than 100% in the open market. Buy all the remaining shares from the company.

Avoid making predictions or estimates, focus on the long term.

In management what matters is selecting people who are: Able, Honest, Hard-working.

Having first rate people on the team is more important than designing hierarchies, or clarifying who reports to whom.

Board Directors must be chosen for: Business Savvy, Interest in Business and Owner Orientations.

The terrible manager is a log easier to confront and remove than the mediocre manager.

Try to hold meetings with and WITHOUT the manager or CEO to review his or her performance.

CEO's should be given only the following guidelines. Run the business as if: You are the sole owner, it is your only asset and you can never sell or merge it for 100 years. These guidelines allow managers to think with a long time horizon in mind.

Stay away from businesses without favorable and durable economic and competitive characteristics.

Indiscriminate use of stock options often robs the shareholders of wealth and allocate the booty to executives.

Stock options are irrevocable and unconditional, they should be used to reward exceptional performance, otherwise they benefit managers without regard to individual performance.

Performance should be the basis for executive pay decisions.

Exceptional managers who earn cash bonuses based on the performance of their own business can simply buy stock if they want to, If they do they truly walk in the owners shoes.

Board's Audit Committee Notes: Make sure the outside world knows that the auditor works for the committee and not for the managers.

Pose this essential questions to board auditors: If the auditors were solely responsible for the report would they have published something different? If the auditor were an investor would the report provide essential information to understanding the performance of the company?

Diversification for active investors is futile if they don't know anything about the eggs in their baskets. Don't diversity more than the time you have to look over all of your securities.

Relevant factors in assessing the health of a company: The long term economic characteristics of a business, the quality and integrity of management and the future levels of taxation and inflation.

Investment knitting for passive investors (the vast majority of people): Long term investment in an index fund.

Investment knitting for active investors (full-time investors): Hard headed analysis of businesses within an investor competence to evaluate.

In assessing Investment risk think about: Company's management, Products, Competitors and Debt.

If you have read thoroughly about a business or two and you strongly believe management trustworthiness; it is better to concentrate your money on those businesses than diversify in those you don't know anything about.

Risk decreases when your intelligent analysis in a business increases as does your comfort level and confidence.

REMEMBER! An investor is the owner of a business, a speculator is the owner of a stock.

If you are an active investor put all of your eggs in one basket, and watch that basket.

Price is what you pay, Value is what you get. Price and value are almost never identical.

Mr. Market: He is willing to buy or sell you at different market prices, these prices are: Sometimes $>$ value, sometimes $<$ value and sometimes $=$ value. The more emotional he is the more irrational his price are.

THE MARGIN OF SAFETY PRINCIPLE: One should not make an investment in a security unless there is sufficient basis for believing that the price paid is lower than the value received.

Growth Investment Vs. Value Investing ARE NOT DIFFERENT, growth must be treated as a component of value.

Invest in businesses run by people you trust.

THE PRINCIPLES OF BEN GRAHAM: Mr. Market, Margin of Safety and Circle of Confidence.

Arbitrage Considerations: Probability of event occurring. The time the funds will be tied up. The opportunity cost. Downside if the event does not occur.

Circle of Competence: Investors should consider investments only concerning businesses they are capable of understanding with a moderate effort.

Institutional Imperative: Pervasive force in which institutional dynamics produce resistance to change, absorption of available funds and acceptance of sub-optimal CEO strategies by subordinates.

Institutional Imperative Diagram: Follow the pack mentality –> Industry Imitators (No industry leaders).

Debt provides no room for action.

REMEMBER, If you are not happy owning a piece of that business with the exchange closed you should not be happy owning it with the exchange open.

Buffett prefers Berkshire to trade at or around its intrinsic value. That is so that good business practices benefit long term shareholders.

Buffett prefers shareholders that have a collective long term business oriented investment philosophy.

Dividend Policy: Each dollar of earnings should be retained if retention will increase market value by at least a like amount, otherwise It Should Be Payed Out!

REMEMBER! Earnings retention is justified only when capital retained produces incremental earnings equal to, or above those generally available to investors.

Stock Split Consequences: Increase transaction costs by promoting high share turnover. Attract shareholders with short term market-oriented views. Lead to prices that differ substantially from intrinsic values.

The only reasons to pay a fair value for extremely rare economic moat businesses: Businesses with franchise characteristics (competitive advantage), and businesses where extraordinary managers exist that can achieve the difficult task of unlocking hidden value.

When buying or selling a company compare the buying or selling price with the intrinsic value of that business. Then you can find whether it is under or overpriced.

Acquisitions payed for in stock should be deemed as: Buyer sells part of itself to acquire seller.

Using financial statements, answer 3 questions: Approximately how much is the company worth? Will the company be able to meet future obligations? Are managers operating the business satisfactorily?

Look Through Earnings = Parent company own net earnings + undistributed earnings from subsidiaries - incremental amount for taxes.

Accounting Good Will: Essentially the amount by which the purchase price of a business exceeds the fair value of the assets acquired (after deducting liabilities).

Economic Good Will: The combination of intangible assets, like brand name and recognition, that enable a business to produce earnings on tangible assets, like plant and equipment, in excess of average rates.

The best guide to the value of a business's economic goodwill is what it can earn on unleveraged net tangible assets, excluding charges for amortization of goodwill.

Owner Earnings = Operating earnings + Non-cash charges (Depreciation . . . ) - Required reinvestment in the business. Where, required reinvestment in the business: The average amount of capitalized expenditures for plant and equipment. . . etc. that the company requires to fully maintain its long term competitive position and its unit volume.

Intrinsic Value: The discounted value of the cash that can be taken out of a business during its remaining life.

Important concepts to find out in assessing the value of a business: Look through earnings. Owner earnings. Intrinsic value. Real cost of compensation and stock options

Seek shareholders that aim to stay for the long term.

We measure our success by the long term progress of the company rather than by the month to month movements of the stock price

We do not measure the economic significance of performance of Berkshire by its size, we measure performance by per share progress.

Our insurance business is structured with vertical integration in mind. e.g. Owning insurers as well as re-insurers; those that insure insurance companies against losses. That way both businesses can concentrate on common long term goals.

Depressed stock markets are likely to present you with significant opportunities and often give rise to undervalued securities.

The double barreled approach to buying: Buying whole businesses at a low price and/or buying common stock of a business at a low price.

Focus on economic earnings Not what can be reported: We much prefer to purchase $2 of earnings not reportable than $1 of earnings reportable, over time the unreported earnings will be fully reflected in our intrinsic business value through capital gains.

Float: cash from premiums that can be used before any claims are due.

I HAVE NEVER BELIEVED IN RISKING WHAT MY FAMILY AND FRIENDS HAVE AND NEED IN ORDER TO PURSUE WHAT THEY DON'T HAVE AND DON'T NEED.

If earnings are not distributed: You must ask for at least a dollar of value for each dollar retained.

Value is found from Look Through Earnings (annually).

AVOID DEBT AT ALL COST but if you have to structure your loans on a long term fixed rate basis.

Reject interesting opportunities if you have to leverage your balance sheet to pursue them, keep a peace of mind.

I WOULD NEVER PERMIT TRADING A GOOD NIGHT SLEEP FOR A SHOT AT A FEW EXTRA PERCENTAGE POINTS.

The benefit of float The ability to have more assets working for us but with none of its drawbacks.

Noble intentions should be checked periodically against results.

Five Year Earnings Retention Test: Test if retaining over time delivers shareholders at least 1 dollar of market value for each 1 dollar retained.

Issues of Common Stock We will issue common stock only when we feel we receive as much in business value as we give, this applies to all sorts of issuances.

Be willing to sell your stock or pay with it only and only if it is overpriced. Otherwise, opt for cash.

Only issue stock if it is overvalues, otherwise you are stealing from shareholders.

Major additional investment in a terrible industry usually is as rewarding as struggling in quicksand.

The CEO who misleads others in public eventually misleads himself in private.

CAUTION: An idea that an ailing business can be restored to profitability by major capital expenditures is in most cases A BAD IDEA since: The capital expenditure itself will make it harder for the business to recover as it will have a larger loss to make up for.

Only if you can obtain a durable competitive advantage can it be a good idea to put forth capital. e.g. the turn of Berkshire from the textile sector to the insurance sector.

Avoid Gin Rummy Managerial Behavior: i.e. Discarding the least promising businesses at each turn, since: Constant selling incurs a large cost and good managers can be lost. Instead, recognize fundamental problems and put cash where it generates better Return on investment.

Tell your shareholders the business facts you would like to know if your positions were reversed.

We don't follow the usual practice of giving earnings guidances as this limits an impairs long term thinking and puts pressure on managers for short term results.

Investment and Business Philosophy: Freely discuss your business and investment philosophy but don't promulgate your investment ideas. This will be like giving someone the money instead of teaching them how to make it, this does more harm that it does good.

It's as bad to be overvalued as be to undervalued. We want the intrinsic value to be equal to market price, as this will benefit our shareholders.

It is both deceptive and dangerous for CEO's to predict growth rates for their companies. They should resist because this limits their decisions and leads to trouble.

We tend to be leery of companies run by CEO's who Woo investors with fancy predictions.

Four Suggestions for Investors: Beware of companies displaying weak accounting (There is seldom just one cockroach in the kitchen), be wary of managers that use EBITDA to track their progress, be wary of unintelligible footnotes (they usually indicate untrustworthy management) and finally be wary of managers that make projections or guesstimates.

Depreciation is TRULY an expense and a very important one. The cash outlay it represents is paid upfront from before the asset acquired has delivered any benefits to the business.

Managers that always promise to make the numbers will at some point be tempted to MAKE UP the numbers.

In too many companies the CEO shoots the arrow of managerial performance and then hastily points the bulls-eye around the spot where the arrow lands.

The persistent irony of business management is that it is far easier for an inadequate CEO to keep his job than it is for an inadequate subordinate.

The CEO's boss is a board of directors that seldom measures itself and is infrequently held to account for substandard corporate performance.

Management owner situations and how to deal with them. Corporation has no controlling shareholder: Behave as if there is a single absentee owner, whose long term interest they should try to further. The controlling owner is also the manager, The board does not act as an agent between owners and management: Directors can't effect change except through persuasion and there is no change if they resign. There is a controlling owner who is not involved in management: Board can express dissatisfaction with controlling owner to effect change; This is the most effective situation to ensure first class management.

Requisites for Board Membership: Business savvy, Interest in the job and Owner orientation.

As a board director avoid the board atmosphere, If there is something you don't agree with say it.

Outside directors should meet regularly without the CEO.

Desirable Independent Directors: Business Savvy, Interested in Business and Shareholder oriented.

Don't let collegiality trump independence.

Getting rid of mediocre CEO's and eliminating overreaching by the able ones requires action by owners: Big owners.

Board members should travel the same road as shareholders.

Find directors that are themselves major owners of the company, that way their decisions will be in agreement with shareholders interests.

We (Berkshire) have never passed out options or restricted shares. After all who ever washes a rental car?

Owner Capitalism based on the true independence of board directors. You win directors win big. You lose, they lose big.

In addition to being independent directors should be: Business savvy, Shareholder Oriented and Have genuine interest in the company; The most important qualification (business savvy).

Warren Buffett Jobs: Attract and keep outstanding managers. Capital allocation.

Warren Buffett Berkshire managers. Think like owners and find all aspects of their business absorbing.

The right players will make almost any team manager look good.

If each of use hires people who are smaller than we are we shall become a company of dwarfs, But if each of us hires people who are bigger than we are, we shall become a company of giants.

When you have outstanding managers of high character running businesses about which they are passionate, you can have a dozen or more reporting to you and still have time for a nap.

Eliminate all the ritualistic and non productive activities that normally go with being a CEO.

Manager's Mission: Run your business as if: You won 100% of it, it is the only asset in your world that you and your family will ever have and you can't sell or merge it for at least a century.

Managers should not let their decisions be affected even slightly by accounting considerations.

We want our managers to think about what counts, not how it will be counted.

Widening the Moat: On a daily basis the effects of our actions are imperceptible; cumulative though, their consequences are enormous.

An ounce of prevention is worth a pound of cure.

Never sacrifice long term competitiveness for short term earnings.

When to keep a business open: I won't close down a business of sub-normal profitability with good long term prospects merely to add a fraction of a point to our corporate returns. However, I feel inappropriate for even an exceptionally profitable company to fund an operation once it appears to have unending losses in prospect.

To know whether to invest or not to invest it is instructive to look at other industries or the leaders of the same sector, i.e. to assess whether investments in this sector will provide a competitive advantage relative to them.

To know whether to stay in a sector, look at the return on capital of the industry leader and their long term earnings history. Also, make sure to look at return on sales and equity over a 20 year period and make sure it is increasing.

Inflation notes: Compare the raise in CPI with that of the share price and dividend, only then can you know the real value of your investment.

A horse that can count to 10 is a remarkable horse, not a remarkable mathematician, e.g. a textile company that allocates capital brilliantly within its industry is a remarkable textile company, NOT A REMARKABLE BUSINESS.

If you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.

Any manager is good in the right business.

A good managerial record (measured by economic returns) is far more a function of what business boat you get into than it is of how effectively you row (though intelligence and effort help a lot in any business, good or bad).

When an industry underlying economics are crumbling, talented management can only slow the rate of decline.

If you want to get a reputation as a good businessman make sure to get into a good business.

Contributions, aside from those with quite clear direct benefits to the company should reflect the charitable preferences of owners rather than those of officers and directors.

The shareholders name the charity; the company writes the check.

The executives can only make charitable donations with no input from shareholders if and only if: Donations are considered to benefit the corporation in an amount roughly commensurate with the cost of the donation.

The decisions of where to do charities reside only with shareholders since it is their money what will be donated.

If your employees including your CEO wish to give to their charities, they should use their own money not yours.

When returns on capital are ordinary, an EARN-MORE-BY-PUTTING-UP-MORE record is NO GREAT MANAGERIAL ACHIEVEMENT.

When a CEO says they quadrupled their earnings you have to look at whether they used more capital to accomplish so.

Look at RETURN ON CAPITAL and make sure it has increase over the years.

A company with a good or increasing return on capital is allocating capital in businesses with good economic fundamentals.

Many corporate compensation plans reward managers handsomely for earnings increased produced solely or in large part by retained earnings.

Be Careful: Sometimes gains in value are simply created because of retained earnings not because management did well with the capital in its hands. Always compare the return on capital with that offered by banks.

Long term options totally ignore the fact that retained earnings automatically build value and also ignore the carrying cost of capital. "It Will be like" paying a manager to put your money in a savings account and granting options for the interests received from the bank.

Compensation(cash) can only be given if the managers deliver a return for every retained dollar that exceeds average returns (bank account, same business sector).

Once granted an option is blind to individual performance, as long as the manager stays in the company he will receive compensation even if he sleeps all day.

Regarding options: Because it is irrevocable and unconditional, the sluggard receives rewards from his options as does the star.

Options are never given to outsiders because this would be stealing from shareholders hands, as such they should not be given to insiders.

AN OPTIONS HOLDER HAS NO DOWNSIDE: Managers benefit from the good times but can ignore the bad ones since the price of the options is fixed.

A business project in which you would wish to have an option frequently is a project in which you would reject ownership.

"An option is like a lottery ticket; I will be happy to accept it but I will never buy one"

Options definition: An opportunity for the manager to buy stock at a fixed low price and sell it once the market price rises.

If stock options are inevitably tied to overall performance, then they should be awarded only to those managers responsible for the results.

Options should be structured carefully, they should take into account retained earnings and carrying cost factor to know whether they have earned the compensation and they should be priced realistically at the real business value.

Some exceptional managers work well with fixed-price options.

Remember CEOs know that every dime paid out in dividends reduces the value of all outstanding options.

There should be variable price stock options to account for retained earnings.

Only by accepting both the risks and the carrying cost that go with outright purchases can managers truly walk in the shoes of owners.

Getting fired can produce a particularly good payday, in the executive suite, the all too prevalent rule is that nothing succeeds more than failure.

We believe good unit performance should be rewarded whether Berkshire stock rises, falls or stays the same.

Good performance is not based on rising stock prices, focus on the economic performance.

Average performance should earn no special rewards, even if the stock sours.

Performance is defined in different ways depending upon the underlying economics of the business.

The manager of a relatively small unit can earn more than the manager of a larger unit if results indicate he should.

Such factors as seniority and age should not affect incentive compensation.

In setting compensation, we like to hold out the promise of large carrots, but make sure the delivery is tied to results in the area the manager controls.

When capital invested in an operation is significant, we both charge managers a high rate for incremental capital they employ and credit them at an equally high rate for capital they release.

Fair option plans should periodically increase in price to account for wealth build up due to retained earnings.

A compensation arrangement should be simple and worked out in 5 mins.

It's probably true that hard work never killed anyone, but I figure why take the chance. Only do what you love; it's not easy, it takes effort but it's not tedious, hard unpleasant work.

Ideal Compensation System: Managers are paid a modest base salary, then a designated percentage of the profits is payed after it is reduced by a charge for capital employed.

Don't let managers employ surplus capital, as if it was cost free!

IF you can tell whose side someone is on, they are not in yours.

The key job of the audit committee is simply to get the auditors to divulge what they know.

The committee must make sure that the auditors worry more about misleading its members than about offending management.

Committees have to keep auditors on the spot, making them understand they'll become liable for major monetary penalties if they don't come forth with what they know.

Questions to ask auditors: If the auditor were solely responsible for the financial statements, would the finances be reported in a different manner? If the auditor were an investor would he have real, honest and sufficient knowledge to assess the health of the company? Is the company following the same internal audit procedure that would be followed if the auditor himself was the CEO? Is the auditor aware of any actions that have purpose and effect of moving revenues and expenses from one period to another?

Always calculate the per share value of a business and compare it with market price.

We have learned from Ben Graham: The key to successful investing was the purchase of shares in good businesses when market prices were at a large discount from the underlying business value.

When we buy common stocks, We approach the transaction as if we were buying a private business, we look at: Economic prospect, the people in charge of the business and the price we must pay.

We are willing to hold a stock forever so long as we expect the business to increase in intrinsic value at a satisfactory rate.

Eventually our economic fate will be determined by the economic state of the business we own.

Mr. Market is an emotional manic depressive fellow who doesn't mind being ignored.

Remember Mr Market is there to server you, not to guide you. It is up his pocketbook, not his wisdom that you will find useful. But it will be disastrous if you fall under his influence.

If you aren't certain that you understand and can value your business far better than Mr. Market you don't belong in the game.

We do not sell holdings just because they have appreciated or because we have held them for a long time.

The Most Foolish Wall Street Maxim "You can't go broke taking a profit"... Wait WHY would you discard your most successful businesses?

An investor will succeed by coupling good business Judgment with an ability to insulate his thoughts and behavior from the super contagious emotions that swirl about the marketplace, ALWAYS KEEP BEN GRAHAM MR. MARKET IN YOUR MIND.

The speed at which a business is recognized as successful is not that important as long as the company's intrinsic value is increasing at a satisfactory rate. In fact delayed recognition can allow us to buy more of a good thing at a bargain price.

The market may ignore a business success for a while, but eventually will confirm it.

In the short run the market is a voting machine in the long term it is a weighing machine.

You shape your houses and then they shape you.

We would rather achieve a return of X while associating ourselves with people whom we strongly like and admire than realize 110% of X by exchanging these relationships for uninteresting or unpleasant ones.

Smile when you read a headline that says: Investors lose as market fall :). Edit it to: Speculators lose as market falls, investors gain.

DON'T LET MONEY BURN A HOLE IN YOUR POCKET. Put it in a safe place until good long term investments come again: Savings Account, CDT, Treasury bills, Arbitrage.

Arbitrage is: Simultaneous purchase and sale of securities of foreign exchange in two different markets or pursuit of profits from an announced corporate event such as the sale of a company, a merger, recapitalization, reorganization, liquidation, self tender . . . etc.

Evaluation of Arbitrage situations: How likely is that the promised event will indeed occur, How long will your money be tied up for, What chance is there that something still better will transpire (e.g. a competing takeover bid), What will happen if the event does not take place.

We participate in only a few arbitrage activities and usually very large each year, Because we diversify so little one good or bad result will affect our annual operations substantially. Also, we only participate in publicly announced transactions. We do not trade on rumors.

We do not have, never have had and never will have an opinion about where the stock market, interest rates, or business activity will be a year from now.

THE LESS THE PRUDENCE WITH WHICH OTHERS CONDUCT THEIR AFFAIRS, THE GREATER THE PRUDENCE WITH WHICH YOU SHOULD CONDUCT YOUR OWN AFFAIRS.

Regarding stock prices: If something can't go on forever, it will end.

FOOLS RUSH IN WHERE ANGELS FEAR TO TRADE.

We will engage in arbitrage from time to time but only when we like the odds.

When we own portions of outstanding businesses with outstanding managements, our favorite holding period is FOREVER. Selling these businesses to earn quick profits is like: cutting the flowers and watering the weeds.

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

We believe that a policy of portfolio concentration may well decrease risk if it rises, as it should the knowledge about a business.

We define risk using dictionary terms. The possibility of loss or injury.

It is better to be approximately right than precisely wrong.

Wildly fluctuations in the market means that irrationally low price will periodically be attached to solid businesses.

After we buy a stock consequently we would not be disturbed if markets closed for a year or two.

The primary factors bearing upon the evaluation of risk are: The certainty with which the long-term economic characteristics of the business can be evaluated. The certainty with which management can be evaluated (both as to its ability to realize the full potential of the business and to wisely employ its cash-flows). The certainty with which management can be counted on to channel the rewards from the business to the shareholders rather than to itself. The purchase price of the business. The levels of taxation and inflation that will be experienced and that will determine the degree by which an investor's purchasing-power return is reduced from his gross return.

Equation beta with investment risk makes no sense.

Every investor will make mistakes but by confining himself to a relatively few, easy to understand cases, a reasonably intelligent, informed and diligent person can judge investment risks with a useful degree of accuracy.

A business that must deal with fast moving technology is not going to lend itself to reliable evaluations of its long term economics.

When dumb money acknowledges its limitations, it ceases to be dumb.

You may consciously purchase a risky investment if you believe that your gain weighted for probabilities considerably exceeds your loss, and you can commit to a number of similar but unrelated opportunities. This is actually the definition of a venture capitalist.

By periodically investing in an index fund, the know-nothing investors can actually out-perform most investment professionals. However, if you are a knowledgeable investor able to understand business economics and identify long term competitive advantages, conventional diversification makes no sense to you.

Avoid the standard “Hate the sin but love the sinner” philosophy, e.g. restructuring extends only to dumping offending businesses not to dumping the officers and directors who bought the businesses in the first place.

Our stay-put behavior reflects our views that the stock market serves as a relocation center in which money is moved from the active to the patient.

Idle rich have increased or maintained their wealth while energetic rich have seen their fortunes disappear.

One knowledge and experience are definitely limited and there are seldom more than 2 or 3 enterprises at any given time in which I personally fell myself entitled to put all my confidence.

Searching for the superstars: We continually search for large businesses with understandable, enduring and mouth watering economics that are run by able and shareholder-oriented managements.

On assessing business opportunities: Try to assess long term economic characteristics of each business, Asses the quality of the people in charge of running it and try to buy the best at a sensible price.

As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one knows something about and in the management of which one thoroughly believes. John Maynard Keynes

Instead of focusing on what businesses will do in the years ahead, many prestigious money managers now focus on what they expect other money managers to do in the days ahead. Not a good plan.

Portfolio Insurance = Stop loss order = bad choice = No = The less these companies are being priced at, the more they are sold. But rationally and if the businesses have solid economics and they are cheap the more the should be bought.

Volatility caused by money managers who speculate irrationally with huge sums will offer the true investors more chances to make intelligent investment moves.

Our goal is to find an outstanding business at a sensible price, Not a mediocre business at a bargain price.

In making both control purchases and stock purchases we try to buy not only on good businesses but ones run by talented high grade and likable managers.

Controlled company advantage vs. marketable securities: Controlling owners get to allocate capital directly, plus there are also other tax advantages.

Most bosses rise to the top because the have excelled in areas such as marketing, production, engineering, administration or institutional politics. However, when they become CEO’s they should be proficient in capital allocation and business management.

It we invest in a business, we want the businesses to be one that: We can understand, with favorable long term prospects, operated by honest and competent people and available at a very attractive price.

Growth = Value investing. Growth is always a component of value. Value investment is a redundancy since investing is always aimed at seeking value.

Consciously paying more for a stock than it's calculated value in the hope that it can soon be sold for still higher price should be labeled SPECULATION.

Management and coupons: The quality of management affects the bond coupon only rarely, In contrast the ability of management can dramatically affect the equity "coupons".

Stock coupon vs Bonds coupon: A bond has a coupon and maturity date that define future cash flows, but for equities the analyst must himself estimate the future coupons.

DCF when to invest: The investment shown by the discounted cash flows calculation to be the cheapest is the one that the investor should purchase - irrespective of whether the business grows or doesn't, displays volatility or carries high ratios.

Low price/book, low price/earning and high dividend yield as indicators for value are far from determinative of true value.

High price/book, high price/earnings and low dividend yield are in no way inconsistent with value.

Business growth per se, tells us little about value e.g. for airline's investors. The more the industry has grown, the worse the disaster for owners.

Growth benefits investors only when the business in point can invest at incremental returns that are enticing

Growth benefits investors only when each dollar used to finance the growth creates over a dollar of long term market value. In the case of a low return business requiring incremental funds to stay competitive growth hurts the investor.

The Theory of Investment Value: The value of any stock, bond or business today is determined by the cash inflows and outflows-Discounted at an appropriate interest rate-That can be expected to occur during the remaining life of the asset.

An investor needs to do very few things right as long as he/she avoids big mistakes.

The Best Business To Own (The Gold Nugget): Leaving the questions of price aside, the best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return. (ROIC and ROC)

Stocks Coupon Calculations: Calculations of stock coupons are hard even for experienced analysts, we attempt to deal with this problem in two ways: Try to stick to businesses we believe we understand (Simple and stable in character) and apply an ample MARGIN OF SAFETY in our purchases.

What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know.

No matter how great the talent or effort: Some things just take time, you can't produce a baby in one month by getting nine women pregnant.

Today, corporate instability is an inevitable consequence of widely-diffused ownership of voting stock. At any time a major holder can surface, usually mouthing reassuring rhetoric but frequently harboring uncivil intentions.

To suggest that this investor should sell off portions of his most successful investments simply because they have come to dominate his portfolio is akin to suggesting the bulls to trade Michael Jordan because he has become so important to the team.

In investing you simply want to acquire, at a sensible price, a business with excellent economics and able, honest management. Thereafter, you need only monitor whether these qualities are being preserved. An investment strategy of this kind will often result in the investor owning a few securities that will come to represent a very large portion of his portfolio.

We harbor businesses and industries unlikely to experience major change. We are searching for operations that we believe are virtually certain to posses enormous competitive strength 10 to 20 years from now.

As investors, our reaction to a changing industry is much like our attitude toward space exploration, we applaud the endeavor but prefer to skip the ride.

We look for predictability in analyzing marketable securities.

Investors making purchases in an overheated market need to recognize that it may take an extended period for the value of even an outstanding company to catch up with the price paid.

Seek the inevitables. Obviously many companies in high-tech businesses or embryonic industries will grow much faster in percentage terms that will the "inevitables" (e.g. coke, Gillette . . . etc) But I would rather be certain of a good result than hopeful of a great one.

For every inevitable, there are dozens of impostors, companies now riding high but vulnerable to competitive attacks.

A serious problem occurs when the management of a great company gets side tracked and neglects its wonderful base business while purchasing other mediocre businesses; A LOSS OF FOCUS is very dangerous.

We recognize that we will never be able to come up with a nifty fifty or a twinkling 20 "inevitables" thus we add a few highly probables.

Investor's Goal: To purchase at a rational price, a part interest in an easily understandable business whose earning are virtually certain to be materially higher 5, 10 and 20 years from now. This companies are hard to find so when you find one, you should bag a meaningful amount of stock.

Most investors both institutional and individual, will find that the best way to own common stock is through an INDEX FUND that charges MINIMAL FEES.

Intelligent Investing: What an investor needs in the ability to correctly evaluate selected businesses.

You don't have to be an expert on every company or even many. You will only have to evaluate companies within your circle of competence.

Circle of Competence: The size of the circle of competence is not very important; knowing its boundaries, however, is vital.

In our view, investments students need only two well-taught courses: How to value a business and how to think about market prices.

Investors should remember that excitement and expenses are enemies.

Avoid the Start and Stop Approach: Avoid entries after an advance in prices and exits after periods of stagnation or decline.

Investors should try to be fearful when others are greedy and greedy when others are fearful.

Put together a portfolio of companies whose aggregate earnings march upwards over the years and so will your portfolio value.

If you aren't willing to own a stock for 10 years, Don't even think about owning it for 10 minutes.

If we have a strength it is in recognizing when we are operating well within our circle of competence and when we are approaching our perimeter.

Predicting the long-term economics of companies that operate in fast-changing industries is simply beyond our perimeter.

When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact.

The Institutional Imperative: An institution will resist any changes in its current direction. Just as work expands to fill available time, corporate projects or acquisitions will materialize to soak up available funds. Any business craving of the leaders, however foolish, will be quickly supported by detailed rate of return and studies prepared by his troops. The behavior of peer companies will be mindlessly imitated.

It is because we concentrated on identifying one-foot hurdles that we could step over rather than because we acquired any ability to clean seven footers.

Easy Does it: In both business and investment, it is usually far more profitable to simply stick with the easy and obvious than it is to resolve the difficult.

A great investment opportunity occurs when a marvelous business encounters a one-time huge, but solvable problem.

I learned to go into businesses only with people whom I like, trust and admire.

You'll never succeed in making a good deal with a bad person.

It's no sin to miss a great opportunity outside of one's area of competence.

A small chance of distress or disgrace cannot, in our view, be offset by a large chance of extra returns.

If your actions are sensible, you are certain to get good results.

Except for token amounts, we shun debt.

We are not interested in incurring any significant debt at Berkshire for acquisitions or operating purposes.

Debt should be used very sporadically when unforeseen temporary circumstances arise.

Over the years, a number of very smart people have learned the hard way that a long stream of impressive numbers multiplied by a single zero equals zero.

Alternatives to common stock: Long-term common stock investments, medium term fixed-income securities, long-term fixed-income securities, short-term cash equivalents and short-term arbitrage commitments.

Limit your investment alternatives to those businesses you understand.

Our criteria has nothing to do with maximizing immediately reportable earnings; our goal rather is to maximize eventual net worth.

In purchasing Junk bonds you are dealing with enterprises that are far more marginal than the average. Businesses usually overloaded with debt and often in low return to capital industries, plus sometimes management traits in these businesses are also questionable.

Lethargy bordering on sloth remains the cornerstone of our investment style.

The Institutional Imperative: The tendency of executives to mindlessly imitate the behavior of their peers, no matter how foolish it may be to do so.

In their lending many bankers played follow the leader with lemming like zeal, now they are experiencing a lemming-like fate.

Because leverage of 20:1 magnifies the effects of managerial strengths and weaknesses, we have no interest in purchasing shares of a poorly managed bank at a "cheap" price, we'd rather buy well managed banks at fair prices.

We will be buying businesses or small parts of businesses called stocks, year in, year out as long as I live. Given these intentions, declining prices benefit us and rising prices hurt us.

The most common cause of low prices is pessimism, sometimes pervasive, sometimes specific to a company or industry. We like to do business at these prices. It's optimism that is the enemy of the rational buyer. However, an unpopular stock is not an intelligent buy simply because. A contrarian approach is just as foolish as a follow-the-crowd strategy. WHAT IS REQUIRED IS THINKING RATHER THAN POLLING, However most men would rather die than think and many do.

The roads of business are riddled with potholes; a plan that requires dodging them is a plan for disaster.

The secret of sound investment in 3 words MARGIN OF SAFETY.

Beware of "past performance proofs" in finance: If history books were the key to riches, the Forbes 400 would consist of librarians, history is no substitute for rationale.

When investing in junk bonds, identify the difference between fallen angels and debt addicts.

Mountains of bad junk bonds sold by those who don't care to those who don't think and there is no shortage of either.

Remember to listen with criteria, good judgment and reason.

One interesting advantage of zero coupon bonds is that the interest is automatically compounded until payed in the end at maturity date.

With bad zero coupon bonds, one party to a contract can experience income without his opposite experiencing the pain of expenditure.

The zero coupon bond possesses an additional attraction for the unscrupulous promoter, which is that the time elapsing between folly and failure can be stretched out.

No financial instrument is evil per se; it's just that some variations have far more potential for mischief that others.

Alchemy whether metallurgical or financial fails. The man claiming to be a financial alchemist might become rich. But gullible investors rather than business achievements will be the source of his wealth.

Whenever an investment banker starts talking about EBDIT, zip up your wallet.

We only want to link up with people whom we like, admire and trust.

The prime rule of intelligent investing: You don't have to make it back the way you lost it.

In a business selling a commodity type product, it's impossible to be a lot smarter than your dumbest competitors.

Occasional outbreaks of those 2 super contagious diseases of fear and greed, will forever occur in the investment community. The timing and market consequences will be unpredictable. Simply try to be fearful when others are greedy and greedy when others are fearful.

Remember stocks can't outperform businesses, in the long run the value of the business prevails.

Bull market can obscure mathematical laws, but they can not repeal them.

The most that owners can earn between now and judgment day is the aggregate earnings of the business.

For investors as a whole, returns decrease as motion increases.

If you run a private business with a few passive partners, I would be disappointed if those partners and their replacements left frequently. Running a public company you should feel the same way.

Your goal as a CEO and investor should be to attract long term owners who, at the time of purchase, had no timetable or price target for sale but plan instead to stay with us indefinitely.

We don't understand the CEO who wants lots of stock activity for that can only be achieved if many of his own owners are constantly leaving.

Regarding the distribution of earnings, there are two types of earnings in a business. Restricted earnings that while not generating high return on capital have to be reinvested in the business to preserve its economic positions (e.g. capital intensive, low return businesses). Unrestricted earnings which may with equal feasibility be retained or distributed (These are very valuable); management should choose whichever course makes greater sense for the owners of the business.

For a number of reasons managers like to withhold unrestricted, readily distributable earnings from shareholders to expand the corporate empire over which the managers rule (i.e. to operate from a position of exceptional financial comfort ... etc).

There is only one valid reason for retention of unrestricted earnings: Only when there is a reasonable prospect (backed by historical evidence and analysis) that for every dollar retained, at least one dollar of market value will be created for owners i.e. only if incremental earnings equal to or above those achievable by investors can be earned.

You should wish your earnings to be reinvested if they can be expected to earn high returns, & you should wish them paid to you if low returns are the likely outcome of reinvestment.

Shareholders would be far better off if earnings were retained only to expand the high return business, with the balance paid in dividends or used to repurchase stock.

Managers of high return businesses who consistently retain and employ earnings in ventures with low returns should be held to account for those allocation decisions, regardless of how profitable the overall enterprise is.

If earnings have been unwisely retained, it is likely that managers too, have been unwisely retained.

Stock repurchases at price and value discrepancies by managers should be encouraged by shareholders for the benefit of the company.

Major repurchases at prices well below per share intrinsic business value immediately increase, in a highly significant way, that value.

By making repurchases when a company's market value is well below its business value, management clearly demonstrates that it is given to actions that enhance the wealth of shareholders, rather than actions that do nothing or worse harm the financial position of the company and its shareholders.

The key word is demonstrated; a manager who consistently turns his back on repurchases, reveals his true motivations for the business.

There is only one combination of facts that makes it advisable for a company to repurchase its shares: The company has available funds (i.e. cash + sensible borrowing capacity), The company's stock is selling below intrinsic value.

Keep in mind, the calculation of intrinsic value for share repurchases should be based on solid knowledge and understanding of the business; otherwise it should be made by the shareholders directly. Be aware, managers might use the repurchases to sell their interests in the company at higher prices thus hurting the shareholders of the business.

Business needs are of 2 kinds: Expenditures that a company must make to maintain its competitive position and optional outlays, aimed at business growth that management expects will produce more than a dollar of value for each dollar spent.

Rationally a company's decision to repurchase shares or to issue them should stand on its own foot. Repurchases should only be make when the stock price is below intrinsic value.

Short term investors are unconcerned about intrinsic value and instead desire managers to trumpet their intention to repurchase so that the stock will rise, this makes sense for them. Long term investors should instead hope the stock falls and trades in enough volume for the company to buy lots of it. That's the only way a repurchase program can have any real benefit for the continuing long term shareholders.

Through the company's policies and communication a company should aim to attract investors who will understand the business operations, attitudes and expectations and dissuade those with a different philosophy. We want to keep long term business oriented shareholders and not market oriented short term speculators.

People who buy for non-value reasons are likely to sell for non-value reasons, accentuating erratic price swings unrelated to the underlying business developments.

Try to avoid policies that attract buyers with a short term focus on the stock price and try to allow policies that attract long term investors focusing on business values.

A word of wisdom regarding payed financial advisers: Those who cannot fill your pockets will confidently fill your ears.

The frictional costs of trading and high share turnover act as a major tax on investors.

When looking for a valuable business: Look for those with excellent economic characteristics and a management that you like trust and admire.

It pays to be actively interested and open minded but it does not pay to be in a hurry.

Recognize fanaticism and avoid it i.e. redoubling your efforts when you have forgotten your aim.

"In my early years as a manager I, too dated a few toads expecting princesses. They were cheap dates-I've never been much of a sport-but my results matched those of acquirers who courted higher-priced toads. I kissed and they croaked"

Recognize fanaticism and avoid it = redoubling your efforts when you have forgotten your aim.

It's better to buy good businesses at fair prices than fair businesses at good prices.

The buying or acquisition of ailing businesses by corporate managers with the expectation of transforming the business under their control is akin to the princess kissing frogs to find a prince, it only happens in fairy tales, the best yet the hardest to find is to find a princess at toad prices.

In the long run management stressing accounting appearance over economic substance usually achieve little of either.

Regardless of the impact upon immediately reportable earnings, we would rather buy 10% of wonderful business "T" at "X" price per share than 100% of mediocre business "F" at "2X" per share.

In finance remember the Noah principle: Predicting rain doesn't count, building arks does!

Our share issuances follow a basic rule: we will not issue shares unless we receive as much intrinsic business value as we give.

The first choice of management in making acquisitions must be to use cash and credit resources, with stock issuances only used to pay when the stock prices are higher than business value.

Be wary of managers willing to issue stock at low prices to pay for their grandiose growth operations, paying $2 for a $1 bill is never a good business.

Remember the issuance of shares to make an acquisition amounts to the buyer making a partial sale of itself.

An acquirer issuing undervalued stock to pay for a business ends up using an undervalued currency to pay for a fully valued business. In effect the acquirer must pay up $2 of value to receive $1 of value. In theses cases a marvelous business at a fair prices becomes a terrible buy.

Never allow a manager's desire for actions and visibility overshadow sound business judgment by the shareholders.

There are 3 ways to avoid destruction of value for old owners when shares are issued for acquisitions: Have a true business value for business value merger. Use of stock as money when the acquirer's stock sells at or above business value. Repair damage moves by repurchasing issued stock with cash, this can sometimes turn a bad stock deal into a fair cash deal.

A word on merger dilution: What really counts is whether a merger is dilutive or antidilutive in terms of intrinsic business value (a judgment dependent in many variables and sound rationale).

A merger should be called for what it is: "Company A sold part of itself to acquire company B"

If corporate pregnancy is going to be the consequence of corporate mating, the time to face the fact is before the moment of ecstasy.

Managers and directors might sharpen their thinking by asking themselves if they would sell 100% of their business on the same basis they are being asked to sell part of it. If it isn't smart to sell on such a basis, they should ask themselves why is it smart to sell a portion.

Accumulation of small managerial stupidities will produce a major stupidity, not a major triumph (Las Vegas has been built upon the wealth transfers that occur when people engage in seemingly small disadvantageous capital transactions) e.g. risky unintelligent investments with a hope of a big return and no solid understanding are little stupidities that will eventually lead to bankruptcy.

In a merger it is essential to understand the giving vs getting factor. Of course a factor of <= 1 is desirable and a value of >1 is a bad investment.

A bad or unintelligent merger provides a double harm to shareholders due to the dilution and loss of overall intrinsic business value and a reasonable lower market valuation for the stock.

Once management shows itself insensitive to the interests of owners, shareholders will suffer a long time from the price/value ration afforded to their stock. No matter how many promises are given by management.

In mergers it is not the near term profit potential but the realistic long term competitive structure and finances that should be analyzed.

The sad fact is that most major acquisitions display an egregious imbalance: they are a bonanza for the shareholders of the acquirer, they increase the income and status of the acquirer's management and are a honey pot for the investment bankers and other professionals on both sides. But, alas they usually reduce the wealth of the acquirer's shareholders, often to a substantial extent.

The impulsive acquisition problem is often compounded by a biological bias: Many CEO's attain their positions in part because they posses an abundance of animal spirits and ego.

Our endorsement of repurchases is limited to those dictated by price/value relationships.

Typical leveraged buy outs (LBOs) capitalization comes from 90% debt (as opposed to stock issuances) and 10% common stock. LBOs are common in economic bubbles because irrational optimism ensues.

LBOs often pay higher valuations for businesses (excluding high leverage interests) due to the environment in which they are utilized; mostly in rising markets.

Good business acquisitions are few and far apart.

In considering mergers, sellers and their representatives will present financial projections having more entertainment value than educational value. Sound judgment with the shareholder's interest at heart is necessary.

Deal-making beats working. It is exciting and fun, working is grubby. Deal-making is romantic and sexy. That's why you have deals that make no sense by lazy managers.

In considering acquisitions: Compare any move you are contemplating with all other opportunities (buying small through the stock exchange . . . etc.), making this comparison will provide some context as to the value of such endeavor.

Most business owners spend the better part of their lifetimes building their businesses; mistakes made in the once-in-a lifetime sales of a business are not reversible.

In selling your business. It's only fair to tell you that you would be no richer after the sale than now. The ownership of your business already makes you wealthy and soundly invested. A sale would change the form of your wealth, but it wouldn't change its amount.

There is often a sound reason to sell, but if the transaction is a fair one, the reason is not so that the seller can become wealthier.

In the sell of companies by investment bankers and “financial professionals” the bankers prepare a book akin to superman comics. In the wall street version, an average mild mannered company emerges able to leap over competitors in a single bound and with earnings moving faster than a speeding bullet and expected to continue to grow over following years. It is clear that the boundary of fantasy was crossed over.

Only in the sales presentations of investment bankers do earnings move forever upward.

In buying businesses we don’t care about short term bumps, in fact these might help bring about some advantageous prices. What we care about are the overall results.

We find it meaningful when an owner cares about whom he sells to. We like to do business with someone who loves their company, not just the money the sell will bring him (though that is understandable).

Often when business emotional attachment exists, it signals that important qualities will likely be found within the business: Honest accounting, pride of product, respect for costumers and a loyal group of associates with a strong sense of direction.

When a business masterpiece has been created by a lifetime or several lifetimes of unstinting care and exceptional talent, it should be important to the owner what corporation is entrusted to carry on its history. How much better it is for the painter of a business Rembrandt to personally select its permanent home than to have a trust officer or uninterested heir auction it off.

In terms of earnings: We care not whether the auditors hear a tree fall in the forest; we do care who owns the tree and what’s next done with it.

In our view the value to all owners of the retained earnings of a business enterprise is determined by the effectiveness with which those earnings are used and not by the size of one’s ownership percentage.

Managers and investors alike must understand that accounting numbers are the beginning, not the end of business value.

In investing just as in baseball, to put runs on the scoreboard one must watch the playing field, not the scoreboard.

The goal of each investor should be to create a portfolio that will deliver him or her the highest possible look through earnings a decade or so from now. This approach will force the investor to think about long term business prospects rather than short term stock market prospects, a perspective likely to improve results.

The primary test of managerial economic performance is the achievement of a high earnings rate on equity capital employed (without leverage or accounting gimmicky, etc.) and not the achievement of consistent gains in earnings per share.

Businesses logically are worth far more than net tangible assets when they can be expected to produce earnings on such assets considerably in excess of market rates of return. This excess return is economic goodwill.

The Change in Buffett's Philosophy: In businesses with economic goodwill the value of the product to the consumer is far greater than it's production cost, thus the higher rate of return on assets.

In economic terms it is sometimes more advantageous to increase the value of the product in the consumer eyes, sometimes with no need to incurs in new production costs.

Any business that requires some net tangible assets to operate (and almost all do) is hurt by inflation, businesses needing little in the way of tangible assets are hurt the least.

Operations that appear to be winners based upon perspective, may pale when viewed from perspective. A good business in not always a good purchase, although it's a good place to look for one.

Managements that dismiss the importance of depreciation and emphasize cash flow or EBITDA (Earnings before interest, taxes, depreciation or amortization) are opt to make faulty decisions, you should keep that in mind as you make your own investment decisions.

In the assessment of a company's health. Personal analysis and self generated accounting is very important in coming up with your own conclusions.

The accountant job is to record, not to evaluate. The evaluation job falls to investors and managers.

Managers and owners need to remember, however, that accounting is but an aid to business thinking, never a substitution for it.

Intrinsic value, the only logical approach to evaluate the attractiveness of an investment.

Intrinsic value is the discounted value of the cash that can be taken out of the business during it's lifetime.

Book value is meaningless when used as an indicator of intrinsic value.

Common yardsticks such as dividend yield, the ratio of price to earnings or to book value, and even growth rates have nothing to do with valuation except to the extent they provide clues to the amount and timing of cash flows into and from the business. Indeed, growth sometimes can destroy value.

Growth can destroy value if it requires cash inputs in the early years of a project or enterprise that exceed the discounted value of the cash that those assets will generate in later years.

Market commentators and investment managers who glibly refer to “growth” and “value” styles as contrasting approaches to investment are displaying their ignorance, not their sophistication. Growth is simply a component (usually a plus, sometimes a minus) in the value equation.

To be sure, an investor needs some general understanding of business economics as well as the ability to think independently to reach well-founded positive conclusions. But the investor does not need brilliance nor blinding insights.

The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs.

Nothing sedates rationality like large doses of effortless money.

Value is destroyed, not created, by any business that loses money over its lifetime, no matter how high it’s interim valuation may get.

A pin lies in wait for every bubble. And when the two eventually meet, a new wave of investors learn some very old lessons.

During bubbles the following lessons are always learned: First, Wall street players(a community in which quality control is not prized) will sell investors anything they will buy. Second, speculation is most dangerous when it is easiest.

CEOs are free to treat GAAP statements as a beginning rather than an end to their obligation to inform owners and creditors.

What needs to be reported is data that helps financially-literate readers answer three key questions. Approximately how much is the company worth?. What is the likelihood that it can meet its future obligations?. And how good a job are its managers doing, give the hand they have been dealt?

Though options if properly structured, can be an appropriate, and even ideal, way to compensate and motivate top managers, they are more often wildly capricious in their distribution of rewards, inefficient as motivators, and inordinately expensive for shareholders.

It’s sometimes argued that a non-transferable option given to an employee is less valuable to him than would be a publicly-traded option that he could freely sell. That fact, however, does not reduce the cost of the non-transferable option: Giving an employee a company car that can only be used for certain purposes diminishes its value to the employee, but does not in the least diminish its cost to the employer.

If options aren’t a form of compensation, What are they? If compensation isn’t an expense, what is it? And, if expenses shouldn’t go into the calculation of earning, where in the world should they go?

The most important accounting mechanism still available to CEO's who wish to overstate earnings is the non-expensing of stock options. Option-expensing became mandatory on June 2005.

CEOs who use variations of accounting scoring schemes in real life tend to become addicted to the games they're playing, after all it's easier to fiddle with the scorecard than to spend hours on the practice tee.

CEOs understandably do not find it easy to reject auditor-blessed strategies that lead to increased future earnings.

It makes little sense to give up time with people we know to be interesting and admirable for time with others we do not know and who are likely to have human qualities far closer to average.

In making acquisitions. Charlie and I have tended to avoid companies with significant post-retirement liabilities.

In health-care, open-ended promises have created open-ended liabilities that in a few cases loom so large as to threaten the global competitiveness of major American industries.

Managers thinking about accounting issues should never forget one of Abraham Lincoln's favorite riddles: "How many legs does a dog have if you call his tail a leg" The answer: "Four, because calling a tail a leg does not make it a leg." It behooves managers to remember that Abe's right even if an auditor is willing to certify that the tail is a leg.

Tax-paying investors will realize a far, far greater sum from a single investment that compounds internally at a given rate than from a succession of investments compounding at the same rate.

A fat wallet is the enemy of superior investment results.

We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen.

We achieved our gains through the efforts of a superb corps of operating managers who get extraordinary results from some ordinary-appearing businesses.

It's far better to own a significant potion of the Hope diamond than 100% of a rhinestone, and the companies just mentioned easily qualify as rare gems.

When stocks are rising, there are scarcity of targets to sue, and both questionable accounting and managerial chicanery often go undetected.

Every share of Berkshire that I own is destined to go to philanthropies, and I want society to reap the maximum good from these gifts and bequests. It would be a tragedy if the philanthropic potential of my holdings was diminished because my associates shirked their responsibility to (tenderly, I hope) show me the door.

Cigar Butt Investing: A foolish method of investing akin to taking that last puff on a cigar, it is the purchase of a stock at a sufficiently low price that there will be some short term profit, though the business' long term performance is likely to be terrible.

Circle of Competence: The limits of one's ability to judge the economics of businesses, intelligent investors draw a thick boundary and stick with companies they can understand.

Dividend Test: Retention of earnings is only justified if each dollar retained produces at least a one dollar increase in per share market value.

Double-Barreled Acquisition Style: A sensible acquisition policy of buying either 100% of businesses in negotiated acquisitions or less than 100% in stock market purchases.

Institutional Imperative: A pervasive force in organizations that leads to irrational business decisions from resistance to change, absorption of corporate funds in sub-optimal projects or acquisitions, indulgence of the cravings of senior executives, and mindless imitation of peer companies.

Intrinsic Value: A hard to calculate but crucial measure of business value, it is the discounted presented value of the cash that can be taken out of a business during its remaining life.

Look-through Earnings: An alternative to GAAP rules governing investments in marketable securities of the investee less than 20%, this measures the investor's economic performance based on its percentage interest of the investee's undistributed earnings (after an incremental reduction for income taxes).

Margin of Safety: Probably the single most important principle of sound and successful investing, Ben Graham's principle says not to purchase a security unless the prices being paid is substantially lower than the value being delivered.

Mr. Market: Ben Graham's allegory for the overall stock market, a moody manic-depressive where price and value diverge, making superior intelligent investing possible.

Owner Earnings: A better measure of economic performance than cash flow or GAAP earnings, equal to (a) operating earnings plus (b) depreciations and other non-cash charges minus (c) required re-investment in a business to maintain present competitive position and unit volume.