

JOHN M. **LONGO**
TYLER J. **LONGO**



BUFFETT'S TIPS

A GUIDE TO
FINANCIAL
LITERACY
AND LIFE

WILEY

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AND LIFE**

**JOHN M. LONGO
AND
TYLER J. LONGO**

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*To my wife Kim and son/co-author, Tyler, the two most important
people in my life.*

—J.L.

*To my grandfather for providing me with the seed capital
to make my first million.*

—T.L.

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Preface

Many surveys have found that a large percentage of households would struggle to come up with \$400 in the event of an emergency. The COVID-19 pandemic has turned this conceptual question into a very real one with potentially devastating human consequences. Financial literacy, and ultimately, financial independence are goals that everyone should aspire to. Beyond the knowledge gained, we believe that those who take the lessons of this book to heart will experience a sense of confidence and freedom in financial matters. The confidence to make good financial decisions. Freedom from the stress that comes from living paycheck to paycheck. Ultimately, the freedom to live the life you want to live and to help the people and causes that you care deeply about.

What better way to become financially literate than to use a framework inspired by perhaps the greatest financial mind that ever existed—Warren Buffett’s? That’s the concept and desired outcome of this book. No one reading this book will become as rich as Warren Buffett, but we do aim to teach you to become financially literate, with the backbone of the book being 100 “tips” or strategies that are largely quotes and anecdotes from Warren Buffett. We’re two of his biggest fans and Berkshire Hathaway shareholders.

For decades Buffett met with groups of college students several Fridays each year for a two-plus hour Q&A session, followed by a lunch at a local Omaha restaurant. Gorat’s Steakhouse and Piccolo Pete’s Restaurant (now closed) were two of Buffett’s favorite places to take the students. The students also received a management-guided tour of several of Berkshire’s subsidiaries, such as Nebraska Furniture Mart, Borsheims, and the Oriental Trading Company. John, a Finance Professor and money manager, led four trips with Rutgers students to meet with Buffett at Berkshire’s headquarters in Omaha, Nebraska. In case you’re curious, Buffett did pay for the students’ lunch, and a root beer float, Buffett’s favorite, was often a

dessert. He often also generously posed for selfies and group photos and autographed books. It seemed like Buffett had as good a time on these visits as the students and faculty in attendance.

One thing that struck John about these meetings was Buffett's wisdom on non-financial-related topics, such as the importance of communication skills, having a group of friends that would inspire you, and the significance of helping others. So, although this book is primarily focused on financially related topics, the "life" part of the book contains many equally valuable lessons.

A confluence of events resulted in the creation of this book. Professors are required to do research, so John is always thinking about some type of research activity. He has also taught investment-related courses for roughly 20 years, with an emphasis on value investing, which is Buffett's specialty. Over the past few years, John was teaching his teenage son, Tyler, about financial-related topics in real time. For example, they opened several financial accounts specifically geared towards minors, such as a savings account, checking account, debit card, credit card, college savings plan, and brokerage account. Additionally, Tyler had completed enough coursework in financial-related topics that he was able to make meaningful contributions to this book. Specifically, he has completed coursework in Financial Literacy, AP Economics, AP Statistics, and the Introduction to Business, Finance, and Economics program for high school students at Columbia University. There are a lot of books on Buffett and even more on the topic of financial literacy. But we believe this is the *only* book that effectively combines the two topics.

Part of Buffett's charm is his plain-spoken language, pop culture references, and wonderful sense of humor. You will see many examples of these characteristics in our book. We tried to incorporate those elements into our writing as well. To illustrate this point, here's one example from Chapter 6. "You might find it amazing that Berkshire Hathaway has almost 400,000 employees, but there are only 25 people in Berkshire's corporate headquarters in Omaha. How can he manage so many people with a staff slimmer than Snoop Dogg's waistline?" We want this book to be understandable to all readers, so the emphasis of any conceptual topic is on intuition. Any (non-trivial) formulas are relegated to an endnote or appendix.

Financial literacy is a vast topic, so we considered a number of approaches to deciding on the content for this book. There are some basic building blocks for being financially literate, such as having the right mindset, living within your means, starting early, paying off credit

cards, and investing in stocks for the long term. All of these topics receive detailed coverage, peppered with Buffett quotes to drive these points home.

Chapter 1 begins by talking about the incredible life of Warren Buffett. Many people unfamiliar with his story will be surprised at the financial success Buffett experienced at a very young age. We then move on in Chapter 2 to discussing some of the fundamentals of investing, such as the “miracle” of compound interest and how supply and demand interact to determine price. Chapter 3 takes some baby steps into financial products offered by banks and other firms. Things such as a bank account, checking account, and credit cards. It also covers newer apps, such as Venmo and Zelle, as well as your credit score.

Chapters 4 through 6 cover the bond market and stock market, the two most important financial markets for most people. Stocks are clearly at the heart of how Buffett generated his enormous wealth, so they are given detailed coverage. We discuss what a stock is, how it trades, and how it is valued by investors, as well as the features Buffett looks at when he buys part of a company, or a firm in its entirety. Chapter 7 discusses the fundamentals of accounting, which is the language of business. We’ll try to make it painless by looking the essence of the financial statements of Apple and drum roll. . . Berkshire Hathaway.

Very few people put all their assets in a single investment. Therefore, it is crucial to discuss risk and how to create a portfolio of investments. We’ll discuss two main approaches espoused by Buffett in Chapter 8. First is an index fund, an investment product that aims to own a broad cross section of investments. The second, which we refer to “expert mode,” is concentrating your assets in less than 10 firms that you thoroughly understand, or what Buffett refers to as in “your circle of competence.”

Part of being financially literate is knowing what is going on in the world of business. So Chapters 9 and 10 discuss the “who’s who” of industry, both with respect to people and firms. Regardless of how much money you make, you won’t build any wealth if you can’t live within your means. We’ve all read articles about famous celebrities or athletes who were once multimillionaires but eventually went bust. Therefore, Chapter 10 is focused on being thrifty like Buffett. It basically covers ways to save money. Saving money in some respects is more important than making money, since you pay taxes on the latter approach and not the former. The two biggest purchases for most individuals are their homes or cars. Given the importance of these big-ticket purchases, we decided to devote a whole chapter to it, Chapter 12.

Buffett said taking a Dale Carnegie course in communications and dealing with people literally changed his life for the better. Chapter 13 discusses some of the key concepts espoused by Carnegie, as well as a newer topic developed by author Dan Goleman, emotional intelligence. Another big-ticket item for young people, or their parents, is college. It is more of an investment than a purchase; hence, we give the topic its own chapter. Chapter 14 discusses the ins and outs of college, especially with respect to financing it. Buffett has had an enormously successful business career, even separate from his legendary investment prowess. Chapter 15 focuses on career-related issues, such as maxing out your retirement plans and filling out the inevitable paperwork that comes with most jobs. We end the book with Buffett's tips for philanthropy. In case you don't know, Buffett is giving virtually all of his wealth away, proving that he did it for the love of the game, rather than trying to build the biggest pile of money.

We hope you read this book more than once. Even so, it's easy to forget some of the terms or concepts. To aid your life-long learning process, we've included a detailed glossary and summarize each chapter with a handy list of Buffett's tips. If you find this book helpful, don't thank us. Rather, thank Buffett by paying it forward and doing something kind for a person in need. We know he would approve!

Reference

Nova, Annie. "Many Americans Who Can't Afford a \$400 Emergency Blame Debt." CNBC, July 21, 2019. <https://www.cnbc.com/2019/07/20/heres-why-so-many-americans-cant-handle-a-400-unexpected-expense.html>.

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Of course, we were greatly inspired by Warren Buffett. We view him as the greatest investor ever and perhaps an even better person. Although he didn't contribute directly to the writing of this book, his "fingerprints" are all over it through his numerous writings, speeches, media appearances, and homespun wisdom. Buffett is a role model for young and old alike.

We thank Dr. Kimberly Morel, the other central part of our family, for her love, encouragement, enthusiasm, and understanding. Completing a work of this magnitude took a lot of time away from our family activities that would certainly have been more enjoyable. But Kim steadfastly saw the short-term and long-term benefits of this book.

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1

Who Is Warren Buffett?

“I tap dance to work, and when I get there I think I’m supposed to lie on my back and paint the ceiling. It’s tremendous fun.”

—Warren Buffett, *Tap Dancing to Work: Warren Buffett on Practically Everything, 1966–2012*

Introduction

Everyone wants to be financially literate and, ultimately, financially independent. What better way to become financially literate than to use the mindset of Warren Buffett, likely the greatest and richest investor who ever lived? That’s the premise of this book. Through his decades of writings, interviews, and speeches, Buffett has provided reams of advice, but he has never written a book on financial literacy. This book takes much of that material and rearranges it in a way to make you financially literate and puts you on the path to becoming financially independent. It may be the next best thing to having Buffett on speed dial!

Buffett’s **net worth**—the amount of money he would have after paying off any debts—was recently pegged at about \$80 *billion*. But minting money just scratches the surface of Buffett’s accomplishments. He’ll also go down in history as one of the greatest philanthropists ever. He’s giving away virtually all of his money to charitable organizations. If that’s not enough, he and Bill Gates—the co-founder of Microsoft—set up the Giving Pledge, an organization where many of the world’s billionaires have pledged to give at least half of their wealth to philanthropy.

Buffett's also a great guy, a genuine down-to-earth person who enjoys life on his own terms. He also has an amazing sense of humor.

Here's a sample. When asked why he has a diet filled with junk food, Buffett replied, "I checked the actuarial tables, and the lowest death rate is among six-year-olds. So I decided to eat like a six-year-old." In short, Buffett's a great role model for all people, regardless of age—if you can get past his diet.

In this book, we take some of the experiences, quotes, wit, and wisdom of Warren Buffett and apply them not only to issues related to financial literacy, but also to lessons on having a successful life. It's a boot camp on personal finance and life, with the backbone of the book constructed by the lessons of Warren Buffett from his many writings, interviews, and external biographies. Although the topic of financial literacy may be of greatest benefit to teens and young adults, since they are often starting with a clean slate, the concepts are really applicable to people of all ages, especially those without a financial background. You're probably thinking, "What can I learn from a 90-year-old?" A lot! At least in our view. And we promise to make it painless for you and, hopefully, fun!

Buffett the Teen

Buffett wasn't born rich, and he didn't turn into a financial superstar when he was an older adult. The foundation to his success was laid during his *pre-teen* years. When Buffett was in elementary school, in Omaha, Nebraska, he sold Wrigley's chewing gum and bottles of Coca-Cola—both future investments for him—to make money. He bought his first **stock** at the age of 11! We'll devote two whole chapters in this book to the stock market, but for now you can think of stock as something that makes you part owner of a business. He filed his first tax return at the age of 13, deducting the costs of his watch and bicycle as business expenses, resulting in a net payment to the U.S. Treasury of \$7. Paying taxes is about as exciting as watching paint dry, but they're something you *won't* be able to avoid down the road, especially if, make that when, you get richer. One of America's Founding Fathers, Benjamin Franklin, once wrote, "In this world nothing can be said to be certain, except death and taxes."

Buffett's father, Howard, was a United States Congressman for 6 years, and Warren moved with his family to Washington, DC, during the 1940s. Buffett got a newspaper route in DC delivering *The Washington*

Post (another future stock investment). By the age of 15 he had used the profits from his business ventures to buy 40 acres of farmland in Nebraska. As a teenager, he and a friend also bought pinball machines and put them in barbershops, splitting the profits with the shop owners. Thus, we hope you can see that the experiences of the young Warren Buffett played an important role, making him the man that he is today.

Who Are We to Write This Book?

Well, first we think there's a gap in the teachings of Warren Buffett. He participated in a cartoon series, *Secret Millionaires Club*, over the 2011–2013 period that provided some simple tips on financial literacy, but not enough to make someone financially competent. Buffett also writes a detailed letter to the **stockholders** of his firm, Berkshire Hathaway, each year. Stockholders own stock and, therefore, are part owners of a business. You can find Buffett's Berkshire letters going back to 1977 on the web at <http://www.berkshirehathaway.com/letters/letters.html>.

You may not have heard of Berkshire Hathaway, but you've almost certainly come across some of its businesses. It owns Dairy Queen, GEICO Insurance (the car insurance company with the funny commercials), Duracell batteries, See's Candy, and dozens of other businesses. It's also one of the biggest stockholders in several of the companies that you likely know, such as Coca Cola, Kraft Heinz (maker of ketchup and mac & cheese), American Express, Wells Fargo, Bank of America, Amazon.com, Apple, and many others.

We're guessing you may not want to read a bunch of annual reports and letters to shareholders, even ones as insightful and often humorous as Berkshire's. But we've read them and extracted many nuggets of information that apply to financial literacy and life. There've been several excellent books written about Buffett, such as Alice Schroeder's *The Snowball: Warren Buffett and the Business of Life*. It's the only book on Buffett that had his explicit cooperation, but at 832 pages, it's almost the size of *War and Peace*! Plus, these and other excellent Buffett-oriented books and websites assume you know a fair amount about business and finance. This book doesn't take that knowledge for granted and teaches you financial literacy concepts along the way. So one way to think of this book is that it's like a *CliffsNotes* on the life of Buffett that makes you financially literate and gives you some life skills to boot—but don't sign up just yet for the reality TV show *Survivor*. :-)

John is a finance professor and investment manager who has met Buffett on four separate occasions. He also teaches graduate college classes on Value Investing, a style of making investments that Buffett follows. He teaches mostly at Rutgers University but also on a part-time basis in the global Executive MBA Program at Columbia University—the same university where Buffett got his master's degree. More precisely, it's a joint Executive MBA program among Columbia, London Business School, and the University Hong Kong, one of the most highly ranked in the world. He's also served as chief investment officer for two billion-dollar-plus investment firms for more than 15 years in total.

Younger people may not want to hear advice from a middle-aged college professor and money manager any more than they want to hear it from their parents. Enter Tyler, a teenage high school student who is learning about personal finance issues in real time. He's completed coursework in financial literacy, economics, statistics, and the Introduction to Business, Finance, and Economics Program for high school students at Columbia University. He is co-author of this book, having written portions of the book, and has his finger on the pulse of teens and young adults to a much greater extent than any college professor. And, perhaps most importantly, his understanding of the concepts in this book acts as an important filter to make sure the book is understandable to teens, young adults, and people new to finance of all ages. Plus, if you see slang words, such as *savage*, *lit*, and *take the L*, used to make the book more readable and less stuffy, that's probably Tyler's influence too. You can also thank him for the handy glossary near the end of this book, so you can brush up on your vocab when you hear a financial term that you don't know. He also contributed some important stories, such as the one related to the Patagonian toothfish that we'll get to in **Chapter 11**.

What Is Financial Literacy and Why Does It Matter?

Literacy means being able to read and write. The President's Advisory Council on Financial Literacy defines **personal financial literacy** as “the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.” In plain English, it means understanding things related to money and being able to make good financial decisions.

In this book, we'll examine a bunch of concepts related to financial literacy including bank accounts, credit cards, credit scores, balancing a checkbook, the stock market, the bond market, mutual funds, real estate, car loans, student loans, mortgage loans, financial websites, financial apps, retirement accounts, and tips for saving money. But we'll do a lot more than that. We'll also discuss other skills that may be useful in your growth and personal development including communication skills, dealing with adversity, learning from mistakes, and ultimately, helping others.

Some Fundamental Buffett “Tips”

Let's start with some core lessons from Buffett's life, or what we'll call “tips.” We'll start with 10 tips in the first chapter, but we'll cover 100 in total by the time we're done with this book. Some of the tips are direct quotes from Buffett, while others are implied from his actions or words. And we'll make it easy for you, summarizing a list of the “tips” at the end of each chapter, just in case someone forced you to read this book. :-) (You can just skip to the tips and be done with it!) Here's our first tip for building wealth based on the life of the young Warren Buffett.

Imagine having—through your own hard work and *not* by gift—the equivalent of roughly \$60,000 by the time you finished high school. That's some serious coin! Well, that's about what Buffett had, adjusted for **inflation**, back in the late 1940s.

Inflation refers to rising prices. We'll cover how it's measured in some more detail later in the book, but for now you can assume that the prices of most things rise over time. College tuition is a biggie for most people under the age of 30, or for someone paying the bill. Tuition, room, board/food, fees, and books at top private colleges can run more than \$75,000 a *year* today. But around 30 years ago, the number was closer to \$17,000 for these same “name brand” schools. The same dynamic—rising prices—is usually true if you look at the prices of cars, homes, doctor's visits, and a broad mix of products and services that make up the economy.

The sooner you start saving, the more time your money is able to work for you. The **interest rate** is the rate at which your money grows if you are saving. Or the rate at which your debt grows if you borrow money. We'll cover more on this topic in **Chapter 2** and **Chapter 3**. For now, you can think of interest as a snowball rolling downhill. That's sort of how the book by Alice Schroeder we mentioned earlier,

The Snowball: Warren Buffett and the Business of Life, got its title. There's a quote from Buffett on the back book jacket, which says, "Life is like a snowball. The important thing is finding wet snow and a really long hill." A really long hill is the equivalent of starting early.

One more point on the importance of interest before we move on. A journalist reportedly once asked Albert Einstein, perhaps the most brilliant physicist ever, what he thought was the greatest invention of all time. Einstein purportedly responded, "Compound interest." Compound interest refers to the interest earned on interest. The "miracle of compound interest," as it's sometimes referred to in financial circles, explains how small sums of money can grow into gigantic sums of money over long periods of time. It also explains how small debts can snowball into huge debts. Better yet, stay out of debt, if you can avoid it.

Getting back to the young Buffett, his first known business enterprise started when he was only 6 years old! Buffett bought packs of gum—Juicy Fruit, Spearmint, Doublemint, and so forth—from his grandfather's grocery store, and he would go around door to door in his neighborhood selling them at a higher price. A little bit later he set up a lemonade stand near his friend's house, since it had more traffic, and therefore more potential customers. Sharp thinking for someone still in elementary school!

Other early ventures included finding stray golf balls at a local golf course and then reselling them later for a **profit**. Profit is the money you make from selling an item (also known as **revenue**), minus any expenses involved in selling the item. In this case, Buffett had no expenses since he got the stray golf balls for nothing, so his profit was equal to his sales, or revenue. This brings to mind a quote that dates back to at least 1860, "One man's trash is another man's treasure." While we're on the topic of trash, the young Buffett would often go to the horse racetrack and look for tickets thrown on the ground. Once in a while he would find a winning ticket that someone mistakenly threw away and cash it in. For a short while he also made money at the track selling a "tip sheet"—a list of predictions of which horses would win each race. That is, until the people running the racetrack shut his tip sheet business down. Bummer!

Buffett eventually got a "real" job as a caddy, carrying golf clubs for adults playing golf, at a wage of \$3 a day, or about \$50 today, adjusted for inflation. And we previously mentioned his paper route and pinball machine businesses that were still ongoing at the time that had him minting money. Needless to say, Buffett got an early start in business in route to becoming a billionaire. If you don't have much money right

now, don't worry. Time is on your side, as long as you get started soon, like that snowball rolling downhill. Need more motivation? Consider the words of Lao-Tzu, an ancient Chinese philosopher, who once said, "A journey of a thousand miles begins with a single step." The previous discussion gets us to our first Tip.

Buffett Tip 1:

Start building wealth early.

Buffett's Work Ethic

John once asked Buffett if he thought a great investor was born or made. Buffett said it was a combination of both. He gave the example of the champion golfer, Tiger Woods, in his prime. Buffett said that Tiger was born with an aptitude for golf, but he also put in an insane amount of practice by often hitting 500 golf balls a day. Practicing hard each day, when combined with his huge natural talent, turned Tiger Woods from a good golfer into a *great* golfer.

The first part of working hard is simply showing up on time, *all the time*. Not just when you feel like it, or when it's easy. Woody Allen, the comedian and film director, once said, "Eighty percent of success is just showing up." In other words, many people aren't responsible and reliable. You can get ahead of 80% of people just by being responsible and doing what is expected of you. That goes for school, work, relationships, and many other activities.

Thomas Edison, inventor of the modern lightbulb, record player (the ancient way we listened to music before we had streaming and downloadable music), and movie camera, said, "Ninety percent of a man's success in business is perspiration." And, of course, success in business applies to women too. By the way, Buffett is a huge proponent of women in business, as we'll discuss later in this book.

A quote often (incorrectly) attributed to Thomas Jefferson says, "The harder I work, the more luck I have." According to our research, this quote, or something similar, first came from writer Coleman Cox. Regardless of who first said it, it's good advice. Hard work often gives rise to new opportunities and the skill set to make the most of them, bringing to mind the expression, "Make your own luck."

We discussed several of the jobs that Buffett had, even before he graduated from high school. Although he liked most of his jobs, clearly they involved some hard work. He had three paper routes when he was in high school, making him the equivalent of \$28,000 a year, adjusted for inflation. Buffett estimated that he delivered almost 600,000 newspapers when he was a teenager. With all that throwing, we're surprised he didn't become a professional baseball player. Buffett usually had to wake up before 5:00 a.m. to deliver his papers before school. His family would often return to Omaha during the summers. One summer job for Buffett in his teen years involved him carrying 50-pound bags of animal feed from a railroad freight car to a warehouse. Later, when he became interested in dating girls, he would read about books to develop big arm muscles. Suns out, guns out!

Ashton Kutcher, a hugely successful actor perhaps best known for his roles in TV shows *That 70's Show*, *Punk'd*, and *Two and a Half Men*, said in a 2013 speech at the Teen Choice Awards, "I never had a job that was better than me." Before Kutcher was a big TV and movie star, he had menial jobs such as sweeping Cheerios dust off the factory floor. And it might surprise you to learn that Kutcher has made many millions of dollars outside of acting, from his investments. For example, he made extremely successful investments in Uber and Airbnb.

Let's turn that advice from Buffett, Edison, Jefferson, and others into our second Tip.

Buffett Tip 2:

Work hard.

Buffett Has Spent a Lifetime Learning

Many of the *Secret Millionaires Club* episodes ended with Buffett's cartoon character saying, "The more you learn, the more you earn." It's true, and we'll show you some data to support that quote. Right off the bat, let's turn that Buffett quote into a Tip.

Buffett Tip 3:

The more you learn, the more you earn.
