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Buffett Revisited **April 28, 1999**

After recently purchasing Apple for the VSN Fund, I encountered some heat from fellow value investors. Part of the reason is that I considered Apple below $34 a Buffett-like stock. Apparently even more offensive, I compared the potential of Apple favorably to the potential of several Buffett favorites - Coke, American Express and Disney- just prior to their huge run-ups.

Noting that Apple has recently been trading in roughly the same range for the last 11 years, one critic noted, "You could never, in a million years, come up with an eleven year period when any of these three companies LOST value in real terms for shareholders." Time flies...

Coca Cola closed May, 1971 trading at $0.91. It closed May, 1982 trading at $0.89, adjusted for splits. Adjusted for inflation, the 1982 price was just $0.38. That's 11 years and a 58% capital loss. No, dividends did not keep up with the torrid rate of inflation in that era.

American Express closed July, 1973 trading at a split-adjusted $15.97. It closed July, 1984 trading at a split-adjusted $14.63, or $6.13 adjusted for inflation. That's 11 years and a 60% capital loss. Dividends help here more than Coke, but do not come near offsetting the ravages of inflation.

Disney closed January, 1973 trading at a split-adjusted $1.90. It closed January, 1985 trading at a split-adjusted $1.41, or just $0.57 adjusted for inflation. That's 12 years and a 70% capital loss, even for the patient. Dividends? Disney did not even pay dividends during the entire period.

So what makes a Buffett-like stock? Is it a long record of strong returns to shareholders? Most definitely not. Rather, Buffett's criteria encompass several different business characteristics - management, market power, great business economics, predictability, and price. These characteristics are amply and best-described in Robert Hagstrom's books on the subject, The Warren Buffett Portfolio and The Warren Buffett Way. The key is not simply looking at a historical ten-year record of achievement in stock price, but evaluating the current situation of the business and coming to a rational investment thesis with respect to these five characteristics.

The intent here is not to defend or even discuss whether Apple is a Buffett stock. The intent is to address a common misperception - that Buffett's success somehow validates the theory that good businesses are priceless. Gillette is not worth whatever price Mr. Market asks. Neither is Coke or American Express or Disney. Historical share price performance in absolutely no way adds additional value to the current business. To the extent a glorious history exaggerates shareholder expectations, it may even detract from value.

Intelligence. The average investor, upon reflecting what it is that differentiates Buffett from himself, should think first of intelligence. The ability to analyze independently and confidently, free of others' and history's dogma. Buffett's most salient lesson to the investment world is to think, and to know one's investments intimately.

Following the crowd, buying what's popular, and buying what is widely known as a good business will not yield Buffett-like returns. Buffett's current investments are well-known as great businesses. But this was not always so. There are others out there that are emerging as great businesses - yes, even in technology. They are predictable, with strong branding and great business models that appeal to the consumer on a recurrent basis. What was once obscure may not be today, or will not be tomorrow. Think. Invest intelligently. Recognize the potential in a resilient brand. Benefit from Buffett's leadership and skill, but do not simply mimic. For that would be forsaking the spirit of his strategy altogether.