



# Book Of Permanent Value

## The Story of Warren Buffett

Andrew Kilpatrick  
McGraw-Hill, 1998

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## Recommendation

Andrew Kilpatrick has written a most unusual biography of one of the world’s richest men, investor Warren Buffett. Instead of the dry chronology presented in most biographies, Kilpatrick has stuffed his 890 pages with 157 immensely readable, personal and professional vignettes. They are arranged in no particular order, yet they add up to a detailed and satisfying journey. Filled with plenty of inside detail from numerous original and published sources, the book lets you pull up a comfy chair inside Warren Buffett’s brain. *BooksInShort.com* recommends this book to anyone interested in investing and general business, and to curious readers of all persuasions.

## Take-Aways

- Warren Buffett grew up in Omaha, Nebraska, where he lives and runs his business today. He bought his first share of stock at the age of 11.
- He was a math prodigy and has been fascinated by finance since early childhood.
- He got his master’s degree from Columbia University, where he studied with Ben Graham, "the father of value investing."
- He learned to keep his investment plans secret.
- He learned to ignore conventional wisdom and still does so.
- In 1956, at 25, he formed the Buffett Partnership with seven other investors who contributed \$105,000. He made all the decisions.
- By 1969, the partnership’s assets had grown to more than \$104 million.
- Buffett is now one of the richest men in the world.
- In 1969, Buffett dissolved the partnership and began investing under the umbrella of his company, Berkshire Hathaway.
- Berkshire has never had a year in which it lost money.

# Summary

## Warren Buffett's Early Years

Warren Buffett jokes that he "was conceived during the stock market crash" in the fall of 1929. To add to the irony, his father was a stock salesman at the time. Young Warren's future could have been predicted by looking at one of his first and favorite toys: a metal moneychanger he wore strapped around his waist. The little boy walked around making change. He was fascinated by this and by keeping track of money. "Making math calculations, particularly when it concerned compounding money at a blistering pace... absorbed him from his earliest days."

"Traditional wisdom can be long on tradition and short on wisdom." [Warren Buffett]

As a child, his first business was peddling Coca-Cola fitting for a fellow who would one day own billions of dollars of Coca-Cola stock. When little Warren was six years old, he came up with the idea of taking a 25-cent six pack of Coke and selling the drinks individually for five cents a bottle. "Those 20% returns were about consistent with Buffett's entire business career. And that's why he's a multi-billionaire."

"Buffett's easy manner and down-home ways mask a highly sophisticated man."

Buffett grew up in Omaha, with the exception of spending his teen years in Washington, D.C., after his father was elected to Congress in 1942, and lives there today. He still lives the down-home, traditional middle-class lifestyle that shaped his youth.

As a child, he retrieved discarded bottle caps from soda machines, sorted and counted them, to find out which soda brand was really selling. He had an auditor's instincts even then. His ability to get at the real numbers, not the supposed numbers passed along by others is still one of his greatest strengths. Buffett was a math prodigy, fascinated with finance, stocks and ways to make money. At age eight, he began reading his father's books about the stock market. Surprisingly, his father had little interest in amassing money for its own sake, and hoped his son would one day join the clergy.

"Once Washington Post Company Chairman Katharine Graham visited Warren Buffett's modest home and joked, 'Warren, is this all you can afford?'"

In April 1942, when Buffett was only 11, he bought his first stocks - three shares of Cities Service Preferred, at \$38 per share. He talked his sister, Doris, into doing the same thing. Thus began his career as an investor, not just for himself, but for others. Even as a youth, his views about the markets were more astute than those of others. He hung around his father's office and did plenty of reading, including Ben Graham's Security Analysis, which he said was "like seeing the light." He learned a critical lesson: Do not be guided by what other people say and don't tell your fellow investors what you are doing at the time you do it.

"Buffett has no aides, no advance team. When he was already the richest person in the country, he once arrived at National Airport in Washington, D.C., walked up to the corporate jet counter and asked: 'How do I get a taxi?' There are no airs. His shoes are scuffed, the watch is a Timex, and the pen is a Bic."

Buffett studied at the Wharton School of Business at the University of Pennsylvania and at the University of Nebraska, where he graduated in 1950 at only 19. Buffett then went to New York City, to study under Ben Graham at Columbia University's Business School. Graham taught him, "Whether someone else agrees or disagrees with you does not make you right or wrong." Buffett never forgot his mentor's hallmark idea and reiterates that philosophy frequently. "When you are dead sure of something and are armed with the facts, then everyone else's advice is only confusing and time-consuming."

"Buffett does his own taxes, saying they are really quite simple."

As an investor, Buffett never lets on what he is doing until he has to disclose it. Wall Street guesses, but Buffett's moves only leak out on rare occasions. He tries to keep his investments secret until the March publication of Berkshire's annual report.

In 1951, at age 20, Buffett graduated from Columbia with a master's degree. He returned to Omaha, where he worked in his father's brokerage firm, Buffett-Falk & Co., from 1951 to 1954. On April 19, 1952, he married Susan Thompson of Omaha.

# The Buffett Partnership

On May 1, 1956, 25-year-old Warren Buffett formed the Buffett Partnership, which consisted of seven limited partners: four family members and three close friends. The seven partners contributed a total of \$105,000 but had no voting power, no say in the running of the partnership. Warren Buffett made all investment decisions. For his \$100 investment, he was listed as general partner. He would add more of his own money in the years to come. As investment manager, Buffett received 25% of the profits, above the 6% investors could receive in savings accounts annually, with deficiencies carried forward. As the years went on, Buffett added investors. He was worth about \$100,000 when he started the partnership in 1956, and about \$400,000 by 1959. The partnership never failed to beat the Dow. It never had a down year.

“There is rarely any pomposity or moodiness in this multi-billionaire. People who have known him for years say they have never seen him angry. His response to things isn’t anger, but rationality.”

In November 1962, the partnership, which had previously invested in other businesses, began buying shares of a textile mill, Berkshire Hathaway. By 1965, Buffett had financial control of Berkshire and became a director. From the beginning, Buffett knew his mission was to compound his cash at a hefty, steady clip. By 1969, the partnership’s assets had grown to \$104,429,431. Buffett’s motto was, and still is, "Buy Low, Don’t Sell." He didn’t hire his first employee until 1962, when he enlisted Bill Scott, who managed the company’s bond portfolio until his retirement in 1993. Since then, Scott has worked part-time at Berkshire.

“He responds to the world by examining it thoroughly and in a positive and witty way. Those who have worked with him describe him as almost unfailingly upbeat and supportive, practically never testy. He works hard. And yet he says his work is not work, but fun. Fun to Buffett is studying the world of business through voracious reading.”

By 1963, Buffett had more than 90 limited partners. In 1964, he engaged the partnership in three main investment categories:

1. Generals: Undervalued stocks that would be held for a long time.
2. Workouts: Securities with a timetable and an arbitrage situation arising from sell-outs, mergers, reorganizations and the like.
3. Controls: Firms in which the partnership owned such a large block of stock that the partnership gained control of the business.

“Buffett says of bridge: ‘It’s got to be the best intellectual exercise out there. You’re seeing through new situations every ten minutes. In the stock market, you don’t base your decisions on what the market is doing, but on what you think is rational. Bridge is about weighing gain/loss ratios. You’re doing calculations all the time.’”

By 1965, the partnership’s net assets, through contributions and growth, had grown to \$26 million. Buffett continued to run his business from a very small office space in Omaha. From 1957 through 1968, the Dow’s compound annual growth rate was 9.1%; the Buffett Partnership’s rate was 31.6%.

## Berkshire Hathaway

At the end of 1969, the 100-member Buffett Partnership underwent the transformation that would see it reborn as part of Berkshire Hathaway, which the partnership had owned since 1965. Buffett liquidated the partnership and distributed to the investors their profits and their pro rata interest in Berkshire. He gave his investors a variety of options, including investing in Berkshire. The company opened on August 1, 1970, with three main businesses: the textile operation, the Illinois National Bank and Trust, and an insurance operation conducted by National Indemnity and National Fire & Marine. Berkshire also owned Blacker Printing Company, and 70% of Gateway Underwriters, but these operations were not financially significant. In 1969, Berkshire bought the Omaha Sun, along with a string of weeklies, but sold the newspaper operation in 1981.

“One problem with the Buffett/Berkshire ‘Buy Low, Don’t Sell’ story is that it seems improbable. People are skeptical because most investors have trouble just treading water. Therefore, it’s hard to relate to making millions upon millions of dollars. Billions of dollars.”

Berkshire Hathaway would continue to advance Buffett’s original investment partnership agendas. He knows how to get the most bang for Berkshire’s buck. Buffett is sensitive to the economic landscape and uses industry environments to Berkshire’s advantage. He comprehends the mind of the consumer and senses which businesses have the greatest long-term competitive strength. Buffett is

touched by the importance of human sensitivity, encouragement, and empathy in maximizing human achievement. Combining these elements of finance, economics and management makes Buffett unique. He views his work in a multi-dimensional way, much as Einstein viewed the solar system and Freud the brain and nervous system. The results of Buffet's genius speak for themselves.

In 1996, Berkshire began offering a Class B share worth one-twentieth of the original now Class A shares. Class A stocks are listed as BRKA, and Class B shares are listed as BRKB. On the last day of the second quarter of 1998, Berkshire Hathaway Class A stock was listed at \$70,000 per share. Although in a couple of years Berkshire's stock price has ended lower than it began, Berkshire has never had a down year for return on stockholder equity.

## **An Unassuming Billionaire**

While Warren Buffett may be one of the richest men in the world, (and until Bill Gates zoomed in out of nowhere, Buffett was the richest man in the United States) but you'd hardly know it from looking at him or his lifestyle. He seems more interested in having fun making the money than in having fun with the money. He doesn't have a lavish home or lavish offices. He is considered quite the eccentric for this in the world of high-powered billionaires, flashy executives, and investors. He isn't comfortable with the trappings of wealth, doesn't think he needs any of it, and doesn't spend any money on it. It's not that he's a miser, cheap, or punishing himself, it's that luxurious stuff doesn't interest him. He thinks of himself as just another Omaha businessman and conducts himself that way. Friends and business associates all know the same Warren Buffett - the one who looks more like a high school principal than a billionaire. . He is known for his warmth, his humor and his wit. He has been described in many ways: "He has an almost photographic memory. His mind is encyclopedic. He has tremendous concentration. He has no peer in security analysis. He needs help turning on the radio. He looks like a dressed-up farmer." Buffett himself has said, "There's nothing material I want very much." He loves making the money. Spending it is of little interest to him. He has a fast, dry wit, a sunny disposition and folksy manner. He comes across as a mix between Jack Benny and Will Rogers.

## **Buffet's Two Brains**

Buffett continues to learn. The reasons for his success are his common sense, his own genius, and his life-long intense study of his area of greatest interest - business. It's as though Buffett has two brains, one of which is always thinking about business. It never sleeps. The other brain works on public policy, talks with friends, and plays bridge and golf.

Buffett doesn't seek the limelight, do the social scene, or call attention to himself. He is hardly a hermit, though, and has attended formal White House dinners and charity events with luminaries from the arts and business worlds. He was among 19 CEOs who appeared in a July 14, 1997, Wall Street Journal ad calling for an end to soft money donations to political campaigns. He knows little about technology, but he admires and spends time with Microsoft's Bill Gates, whom he met in 1991. Gates has said that Buffett is his favorite CEO, adding, "The guy thinks. I love people who just think. The conventional wisdom, they don't fall into it." Buffett refers to Gates and himself as "the odd couple," and regards Gates' business savvy as "extraordinary."

Warren Buffett's quite ordinary office is located in Kiewit Plaza, a modest Omaha building. Berkshire's headquarters are still smaller than 4,000 square feet and are not posh by anyone's definition. The office contains a small conference room and places for about a dozen people to operate. Berkshire maintains other offices for the team of accountants who work on its insurance subsidiaries, and has a data processing building elsewhere in Omaha to track the insurance operation's complex finances. But that's it. Buffett runs Berkshire's empire from a small desk near the corner of his office, piled with reading material. True to his sense of humor, the desk often sports notepads that read, "In case of nuclear war, disregard this message."

## **About the Author**

**Andrew Kilpatrick** self-published the first edition of this book in 1994. He updated and expanded it for the 1998 McGraw-Hill edition. He served in the Peace Corps, was a U.S. Naval officer, and spent 20 years as a newspaperman in Birmingham, Alabama.

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