Quotations- Warren Buffett

Accounting:

“Accounting consequences do not influence our operating or capital-allocation decisions. When acquisition costs are similar, we much prefer to purchase $2 of earnings that is not reportable by us under standard accounting principles than to purchase $1 of earnings that is reportable.”

“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’.”

Arbitrage:

“Berkshire’s arbitrage activities differ from those of many arbitrageurs. First, we participate in only a few, and usually very large, transactions each year. Most practitioners buy into a great many deals perhaps 50 or more per year. With that many irons in the fire, they must spend most of their time monitoring both the progress of deals and the market movements of the related stocks. This is not how Charlie nor I wish to spend our lives. (What’s the sense in getting rich just to stare at a ticker tape all day?)”

Billionaires:

“Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars.”

Brand:

“Your premium brand had better be delivering something special, or it’s not going to get the business.”

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.” Forbes. June 2, 1997. http://www.buffettcup.com/Default.aspx?tabid=69

“The approach and strategies are very similar in that you gather all the information you can and then keep adding to that base of information as things develop. You do whatever the probabilities indicated based on the knowledge that you have at that time, but you are always willing to modify your behaviour or your approach as you get new information. In bridge, you behave in a way that gets the best from your partner. And in business, you behave in the way that gets the best from your managers and your employees.” Buffett on Bridge

“I wouldn’t mind going to jail if I had three cellmates who played bridge”
http://www.buffettcup.com/Default.aspx?tabid=69

“I spend twelve hours a week – a little over 10% of my waking hours – playing the game. Now I am trying to figure out how to get by on less sleep in order to fit in a few more hands.”

http://www.buffettcup.com/Default.aspx?tabid=69

Investing is not as tough as being a top-notch bridge player. All it takes is the ability to see things as they really are.

Bubbles:

“Unfortunately, the hangover may prove to be proportional to the binge.”- March 2003

“Like most trends, at the beginning it’s driven by fundamentals, at some point speculation takes over. What the wise man does in the beginning, the fool does in the end.” 2006 Berkshire Hathaway annual meeting

“The world went mad. What we learn from history is that people don’t learn from history.”

Bull Markets
“In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world. A right-thinking duck would instead compare its position after the downpour to that of the other ducks on the pond.” Letter to Berkshire Hathaway shareholders, 1997

Business:

“Should 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.”

If a business does well, the stock eventually follows.”

Business School:

“The business schools reward difficult complex behavior more than simple behavior, but simple behavior is more effective.”

Circle of Competence

“There are all kinds of businesses that Charlie and I don’t understand, but that doesn’t cause us to stay up at night. It just means we go on to the next one, and that’s what the individual investor should do.”

Compensation:

“The .350 hitter expects, and also deserves, a big payoff for his performance – even if he plays for a cellar-dwelling team. And a .150 hitter should get no reward – even if he plays for a pennant winner.”

“Too often, executive compensation in the U.S. is ridiculously out of line with performance. That won’t change, moreover, because the deck is stacked against investors when it comes to the CEO’s pay.”
- Warren Buffett; 2005 Letter to Shareholders

Complexity:

“There seems to be some perverse human characteristic that likes to make easy things difficult.”

Crowds:

“You can’t buy what is popular and do well.”

“Most people get interested in stocks when everyone else is. The time to get interested is when no one else is.”

“You’re neither right nor wrong because other people agree with you. You’re right because your facts are right and your reasoning is right—and that’s the only thing that makes you right. And if your facts and reasoning are right, you don’t have to worry about anybody else.”

“A public-opinion poll is no substitute for thought.”

“The most common cause of low prices is pessimism-some times pervasive, some times specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It’s optimism that is the enemy of the rational buyer.” – 1990 Chairman’s Letter

“If you expect to be a net saver during the next 5 years, should you hope for a higher or lower stock market during that period?”Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall.”This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices."- 1997 Chairman's Letter to Shareholders

Debt:

"We will reject interesting opportunities rather than over-leverage our balance sheet." Berkshire Hathaway Owners Manual

Decisions

"Charlie and I decided long ago that in an investment lifetime it's too hard to make hundreds of smart decisions. That judgement became ever more compelling as Berkshire's capital mushroomed and the universe of investments that could significantly affect our results shrank dramatically. Therefore, we adopted a strategy that required our being smart – and not too smart at that – only a very few times. Indeed, we'll now settle for one good idea a year. (Charlie says it's my turn.)"

Diversification

"The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it."- 1993 Chairman's Letter to Shareholders

"Diversification is a protection against ignorance. It makes very little sense for those who know what they're doing." 1993 Chairman's Letter to Shareholders.

"Why not invest your assets in the companies you really like? As Mae West said, "Too much of a good thing can be wonderful".

Efficient Market Hypothesis

"I'd be a bum on the street with a tin cup if the markets were always efficient." Fortune April 3, 1995

"Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising 'Take two aspirins'?"- 1987 Chairman's Letter to Shareholders

Emotions

"The most important quality for an investor is temperament, not intellect… You need a temperament that neither derives great pleasure from being with the crowd or against the crowd."

Ethics:

"I won't close down a business of subnormal profitability merely to add a fraction of a point to our corporate returns. I also feel it inappropriate for even an exceptionally profitable company to fund an operation once it appears to have unending losses in prospect. Adam Smith would disagree with my first proposition and Karl Marx would disagree with my second; the middle ground is the only position that leaves me comfortable. "

Experience

"Can you really explain to a fish what it's like to walk on land? One day on land is worth a thousand years of talking about it, and one day running a business has exactly the same kind of value." The Essential **Buffett**: Timeless Principles for the New Economy Robert Hagstrom 2002

Fun:

“We enjoy the process far more than the proceeds.”

Habit:

“Chains of habit are too light to be felt until they are too heavy to be broken.”

Inactivity:

“You do things when the opportunities come along. I’ve had periods in my life when I’ve had a bundle of ideas come along, and I’ve had long dry spells. If I get an idea next week, I’ll do something. If not, I won’t do a damn thing.”

“We don’t get paid for activity, just for being right. As to how long we’ll wait, we’ll wait indefinitely.” – 1998 Berkshire Hathaway Annual Meeting

“I call investing the greatest business in the world because you never have to swing. You stand at the plate, the pitcher throws you General Motors at 47! U.S. Steel at 39! and nobody calls a strike on you. There’s no penalty except opportunity lost. All day you wait for the pitch you like; then when the fielders are asleep, you step up and hit it.”

“The stock market is a no-called-strike game. You don’t have to swing at everything–you can wait for your pitch. The problem when you’re a money manager is that your fans keep yelling, ‘Swing, you bum!’” – 1999 Berkshire Hathaway Annual Meeting

“Our favorite holding period is forever.” Letter to Berkshire Hathaway shareholders, 1988

“I am out of step with present conditions. When the game is no longer played your way, it is only human to say the new approach is all wrong, bound to lead to trouble, and so on. On one point, however, I am clear. I will not abandon a previous approach whose logic I understand (although I find it difficult to apply) even though it may mean foregoing large, and apparently easy, profits to embrace an approach which I don’t fully understand, have not practiced successfully, and which possibly could lead to substantial permanent loss of capital.”
1969.

“One of the ironies of the stock market is the emphasis on activity. Brokers, using terms such as `marketability’ and `liquidity,” sing the praises of companies with high share turnover… but investors should understand that what is good for the croupier is not good for the customer. A hyperactive stock market is the pick pocket of enterprise.”

Inheritance

“When they open that envelope, the first instruction is to take my pulse again.” – 2001 Annual Meeting

“[The perfect amount of money to leave children is] enough money so that they would feel they could do anything, but not so much that they could do nothing.” Richard I. Kirkland Jr., “Should You Leave It All to the Children?” Fortune, 29 September 1986.

Intelligence:

“Success in investing doesn’t correlate with I.Q. once you’re above the level of 25. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.” – BusinessWeek Interview June 25 1999

Insurance:

“In the insurance business, there is no statute of limitation on stupidity.”

Investing:

“You ought to be able to explain why you’re taking the job you’re taking, why you’re making the investment you’re making, or whatever it may be. And if it can’t stand applying pencil to paper, you’d better think it through some more. And if you can’t write an intelligent answer to those questions, don’t do it.”

Forbes: “How do you feel?
“Like an oversexed guy in a whorehouse. Now is the time to invest and get rich.”

“The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.” July 1999 Sun Valley

“The important thing is to keep playing, to play against weak opponents and to play for big stakes.”- Nov. 2002 talking with students at Gaston Hall

“I never buy anything unless I can fill out on a piece of paper my reasons. I may be wrong, but I would know the answer to that. “I’m paying $32 billion today for the Coca Cola Company because…” If you can’t answer that question, you shouldn’t buy it. If you can answer that question, and you do it a few times, you’ll make a lot of money.”

“Someone’s sitting in the shade today because someone planted a tree a long time ago.”

Investment banks:

“…Wall Street – a community in which quality control is not prized – will sell investors anything they will buy.” – 2000 Letter to Shareholders

“Wall Street is the only place that people ride to work in a Rolls Royce to get advice from those who take the subway.”

Journalism:

“The smarter the journalists are, the better off society is.

Love:

“The only way to be loved is to be loveable, which really irritates me.”
CityClub Seattle (July 21, 2001)

Luck:

I’m just lucky to have been in the right place at the right time. Another place, another time, I wouldn’t have been as successful. Society enabled me to make my money and my money should go to society.”
http://cotellese.wordpress.com/feed/

“I just don’t see anything available that gives any reasonable hope of delivering such a good year and I have no desire to grope around, hoping to ‘get lucky’ with other people’s money. I am not attuned to this market environment, and I don’t want to spoil a decent record by trying to play a game I don’t understand just so I can go out a hero.”

Management:

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

“If you don’t know jewelry, know the jeweller.”

“When returns on capital are ordinary, an earn-more-by-putting-up-more record is no great managerial achievement. You can get the same result personally while operating from your rocking chair. just quadruple the capital you commit to a savings account and you will quadruple your earnings. You would hardly expect hosannas for that particular accomplishment. Yet, retirement announcements regularly sing the praises of CEOs who have, say, quadrupled earnings of their widget company during their reign – with no one examining whether this gain was attributable simply to many years of retained earnings and the workings of compound interest." 1985 Chairman's Letter to Shareholders

"Just as work expands to fill available time, corporate projects or acquisitions will materialize to soak up available funds… any business craving of the leader, however foolish, will be quickly supported by detailed rate-of-return and strategic studies prepared by his troops"

"The managers at fault periodically report on the lesson they have learned from the latest disappointment. They then usually seek out future lessons."

"Of one thing be certain: if a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked."

Margin of Safety

"If you understood a business perfectly and the future of the business, you would need very little in the way of a margin of safety. So, the more vulnerable the business is, assuming you still want to invest in it, the larger margin of safety you'd need. If you're driving a truck across a bridge that says it holds 10,000 pounds and you've got a 9,800 pound vehicle, if the bridge is 6 inches above the crevice it covers, you may feel okay, but if it's over the Grand Canyon, you may feel you want a little larger margin of safety…"- 1997 Berkshire Hathaway Annual Meeting

"You leave yourself an enormous margin of safety. You build a bridge that 30,000-pound trucks can go across and then you drive 10,000-pound trucks across it. That is the way I like to go across bridges." – Financial World, June 13, 1984.

"Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results."- 1974 Letter to Shareholders

Market Timing

"Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful." Berkshire Hathaway 2004 Chairman's Letter

"Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later, 'I can calculate the movement of the stars, but not the madness of men.' If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: For investors as a whole, returns decrease as motion increases." Berkshire Hathaway 2005 Chairman's Letter

Math:

"There are three kinds of people in the world: those who can count, and those who can't"

Mistakes:

"Most business mistakes are irreversible setbacks, but you get another chance. There are two things in life that you don't get another chance at – marrying the wrong person and what you do with your children."
http://cotellese.wordpress.com/feed/

You only have to do a very few things right in your life so long as you don't do too many things wrong.

Rule No.1: Never lose money. Rule No.2: Never forget rule No.1.

Patience:

"Time is the enemy of the poor business and the friend of the great business. If you have a business that's earning 20%-25% on equity, time is your friend. But time is your enemy if your money is in a low return business." – Warren Buffett, 1998 Berkshire Annual Meeting

"The Stock Market is designed to transfer money from the Active to the Patient."

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

People:

It's better to hang out with people better than you. Pick out associates whose behavior is better than yours and you'll drift in that direction.

I am quite serious when I say that I do not believe there are, on the whole earth besides, so many intensified bores as in these United States. No man can form an adequate idea of the real meaning of the word, without coming here.

Somebody once said that in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you. You think about it; it's true. If you hire somebody without the first, you really want them to be dumb and lazy.
"Working with people who cause your stomach to churn seems much like marrying for money – probably a bad idea under any circumstances, but absolute madness if you are already rich."

Predictions

"You only find out who is swimming naked when the tide goes out." Berkshire Hathaway 2001 Chairman's Letter

"I violated the Noah rule: Predicting rain doesn't count; building arks does."

"We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children."

"If past history was all there was to the game, the richest people would be librarians."

"In the business world, the rearview mirror is always clearer than the windshield.

"The fact that people will be full of greed, fear or folly is predictable. The sequence is not predictable." – Financial Review, 1985

"The future is never clear, and you pay a very high price in the stock market for a cheery consensus.

Price

"Price is what you pay. Value is what you get."

"For some reason, people take their cues from price action rather than from values. What doesn't work is when you start doing things that you don't understand or because they worked last week for somebody else. The dumbest reason in the world to buy a stock is because it's going up. "

"Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid." – Berkshire Hathaway 1998 Annual Meeting

Problems:

"One's objective should be to get it right, get it quick, get it out, and get it over… your problem won't improve with age."

Quality:

“We have tried occasionally to buy toads at bargain prices with results that have been chronicled in past reports. Clearly our kisses fell flat. We have done well with a couple of princes – but they were princes when purchased. At least our kisses didn’t turn them into toads. And, finally, we have occasionally been quite successful in purchasing fractional interests in easily-identifiable princes at toad-like prices.”- 1981 Chairman’s Letter

Reputation

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

Risk:

“I like to go for cinches. I like to shoot fish in a barrel. But I like to do it after the water has run out.”- Oct. 2003, Wharton talk with MBA students

“Risk is a part of God’s game, alike for men and nations.”

“I don’t look to jump over 7-foot bars: I look around for 1-foot bars that I can step over.”

“We’re perfectly willing to trade away a big payoff for a certain payoff.” – 1999 Berkshire Hathaway

“Risk comes from not knowing what you’re doing.”

“Uncertainty is the friend of the buyer of long-term values.”

Size vs. Performance

“If I was running $1 million today, or $10 million for that matter, I’d be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I’ve ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It’s a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that.” “Homespun Wisdom from the ‘Oracle of Omaha’”, BusinessWeek, 5 July 1999.

“Our future rates of gain will fall far short of those achieved in the past. Berkshire’s capital base is now simply too large to allow us to earn truly outsized returns. If you believe otherwise, you should consider a career in sales but avoid one in mathematics (bearing in mind that there are really only three kinds of people in the world: those who can count and those who can’t). ” – 1998 Chairman’s Letter to Shareholders

Speculation

“If you’re an investor, you’re looking on what the asset is going to do, if you’re a speculator, you’re commonly focusing on what the price of the object is going to do, and that’s not our game.”- 1997 Berkshire Hathaway

“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. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities — that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future — will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There’s a problem, though: They are dancing in a room in which the clocks have no hands.” Berkshire Hathaway 2000 Chairman’s Letter

We believe that according the name ‘investors’ to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a ‘romantic.’

Taxes

“It’s class warfare, my class is winning, but they shouldn’t be.” – CNN Interview, May 25 2005
“There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning.” – New York Times, November 26, 2006.

“If you’re in the luckiest 1 per cent of humanity, you owe it to the rest of humanity to think about the other 99 per cent.” “Times Online, June 28, 2007.

Turn arounds:

“Turn-arounds” seldom turn”.

Valuation:

“The investor of today does not profit from yesterday’s growth.” 1961 partnership **letter**

“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.”

“The speed at which a business success is recognized, furthermore, is not that important as long as the company’s intrinsic value is increasing at a satisfactory rate. In fact, delayed recognition can be an advantage: It may give us the chance to buy more of a good thing at a bargain price.”