

**Cunningham, Lawrence - The Essays of Warren Buffett**

1997, [Equity Investing] Grade



Warren Buffett is fond of saying that he loves Coca-Cola (the stock) because of the virtue of knowing how its business will look a decade from now (i.e. the same). One can almost certainly say the same about his own writings: A century from now people will still marvel at the insights and resonance from Buffett's annual shareholder letters and other publications, trying to apply them in their own investments. If *Security Analysis* (Ben Graham) laid the foundations for valuing companies and Philip Fisher's *Common Stocks...* detailed how true business analysis should be done, then *Essays of...* will be referred to as the advisory blueprint of combining these two to create an outstanding- and lasting investment result, all the while having impeccable ethical standards. Given the fact that there are 53 million hits on "Warren Buffett blogs", there simply is no substitute to reading the actual words of the best investor of our time.

Due to Berkshire's massive success in all aspects of the word, Buffett has transformed into a cartoon-like figure, with even professional investors knowing him more by punchy one-liners such as "our favourite holding period is forever". As headline-ish as this is, it is akin to judging the merits of Usain Bolt from a Puma-commercial. To me, apart from the Berkshire-numbers themselves, what has always been the standout attribute of Buffett and his letters are the ability to synthesise immensely complex matters into common-sense opinions. Has there been better real-life practitioners than Buffett and Munger of Einstein's quote "everything should be made as simple as possible, but not simpler"? The shareholder letters are filled with discussions around everything from board practices, arbitrage, "value" investing, junk bonds, accounting, tax policy, stock-options and countless other topics.

*Essays of...* consists of chosen parts of Buffett's letters to Berkshire shareholders throughout the years, organized according to coherent themes. By compiling them in this way, Cunningham clearly

did all us Buffett-lemmings a massive favour. But not only that. I believe that this book has given – and is destined to increasingly do so in the future – Buffett's writings the attention they deserve among a wider audience. Not merely as a convenient go-to source for journalists to get his views on the flavour-of-the-day topic, but more importantly as mandatory reading for business school students and corporate decision-makers. As Cunningham states: "Many of Buffett's lessons directly contradict what has been taught in business and law schools during the past thirty years, and what has been practiced on Wall Street and throughout corporate America during that time". This collection of essays can truly re-educate a generation of students and continue the education of others. This is more important than it sounds, because if the gospel of modern finance theory and using complexity for its own sake had done enough harm upon this book's publishing date in 1997, it has doubled down on its effort as of today.

In my mind, some of the most interesting letters are the ones written in the late 70s and 1980s. It was during this time Buffett transformed from cigar-butt and "work-out" investing to the methods most people define him by today; predictable corporations with a competitive moat bought at a fair price. One of the first investments made along this line of thinking, at the behest of partner Charlie Munger, was the 1972 acquisition of See's Candy from the See-family. The letter(s) that go through this thought-process are superb in describing the merits of investing in high-return business. As a side-note, despite paying only 6x profits, the relatively high P/B multiples actually made Buffett reject the deal before finally completing it.

Some books just provide the reader with that "intangible" value of being worth more than the sum of its words. It leaves you with an extra layer of conviction of what's right and wrong, what's permanent knowledge and what's more fleeting. *Essays of...* has that invaluable quality.

Henrik Andersson, May 10, 2012