

Buffett, Warren – Warren Buffett Talks to MBA Students

BN Publishing, 2009, [Equity Investing] Grade ★★★★★

As a book these 100 pages is a triviality. It contains four speeches for MBA students made by Warren Buffett between 1998 and 2005. On the other hand the content of the talks are far from trivial, even if the mundane language of Buffet could mask the importance of what is being said. Buffett is titled as the author but in reality he obviously didn't write the texts. The publishing company has simply compiled publicly available transcripts and printed them. For the experienced Buffett-watcher there is relatively little new in this publication.

The four speeches, or rather question and answer-sessions were given at the University of Florida, Columbia University and the University of North Carolina plus to students from the University of Maryland visiting Omaha. Apart from the Columbia speech what you get is the edited transcripts. In the Columbia case it's rather a student's meeting notes. As expected there is a big overlap between the sessions. The same jokes, anecdotes and stories show up again and again.

The content is however pure Buffett-wisdom where he for example shares what qualities he looks for in management (integrity, intelligence and energy – and if they haven't got integrity it's better if they are dumb and lazy), points to the importance of setting up role models for one's behavior in an early age to form good habits and character and to the fact that risk with catastrophic consequences should be avoided even if the probability of them occurring are miniscule. Buffett also makes it clear that you should state the reason for every purchase of stocks you make so you afterwards can learn from any consistent mistakes.

Overall, reflection is highly valued; *“The best way to think about investments is to be in a room with no one else and just think.”* The same high marks are not given the incentive plans of corporate America where Buffett especially disapproves of the use of options; *“Across the spectrum, compensation plans are*

crazy.” Business savvy and passion for the business instead of money are other preferred management traits that are mentioned.

The combination of only looking for investments within a defined circle of competence and actively searching for business where the sustainability of the profits are protected by strong barriers to entry, gives Buffett an ability to understand how the company will look in 10 years from now. Without this understanding he would not have the ability to know if his paying a sufficiently low price for the business. A few questions focus on the difference between the early deep value-Buffett and the subsequent franchise value-Buffett. He explains that a deep value investor doesn't receive any repetitive gains from his investments. He constantly has to reinvent his portfolio. The good franchise businesses instead works for you over time: *“Compounding is amazing – like rolling a snowball down hill”.*

Nothing of the above will probably surprise you. I did get one new insight though. Bruce Greenwald has mentioned that he believes that Buffett doesn't calculate an absolute intrinsic value of a prospective investment but instead estimates an approximate expected yield from it. Judging from the comments in these speeches Greenwald is probably right as Buffett states that he doesn't buy anything with a price target in mind, he describes Salomon as a “9% security” and answers that 13 percent is the lowest benchmark he sets for his investments.

I almost wish I could give a lower grade to this book as it's poorly edited, repetitive and it has a cheap feel about it. However, the displayed wisdom of the sage of Omaha makes this impossible. There are quite obviously better books about Warren Buffett, but very little of what has been written about him beats that which is said by himself. Buffett truly is a master - not only of investing - but also of words.

Mats Larsson, July 9, 2014