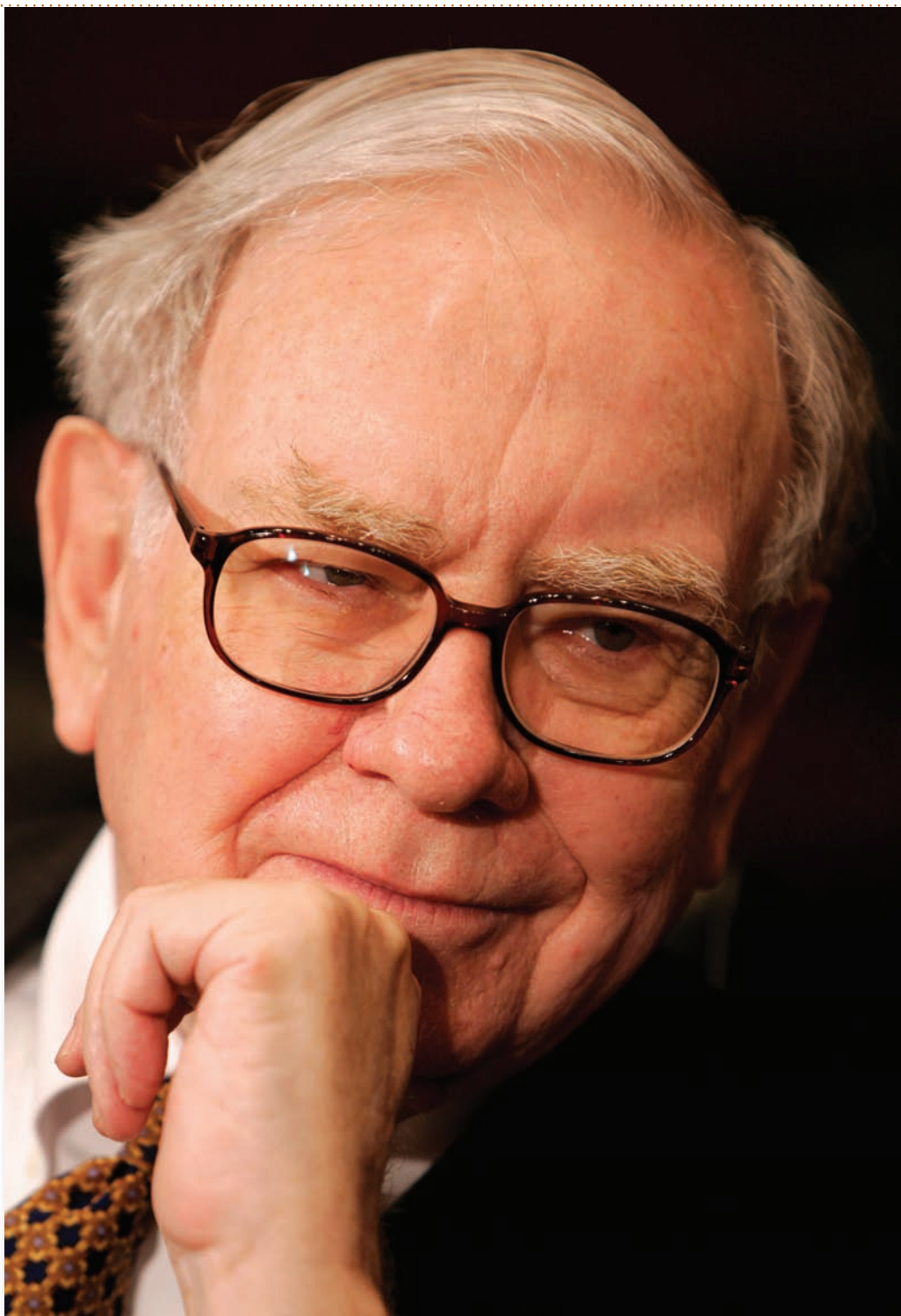

THE ORACLE OF OMAHA

ONE OF THE WORLD'S RICHEST
MEN, WARREN BUFFETT
LIVES SIMPLY AND GIVES AWAY
MOST OF HIS FORTUNE

BY SARAH ACHENBACH



WARREN BUFFETT, chairman and CEO of Berkshire Hathaway and the third richest man in the world, according to *Forbes*, is legendary for his stock-picking savvy. Known, envied and emulated for his scholarly precision in researching stocks and his even-keel approach to investing, the “Oracle of Omaha” is equally famous for his aversion to making predictions. Perhaps that’s because the one financial prediction he did make, as a youngster, missed by almost \$6 million.

When he was 10, the budding financial wizard announced to his stockbroker father that he would have \$1 million by age 35. But when Buffett reached that age in 1965, his net worth had snowballed into a whopping \$6.8 million.

Berkshire Hathaway was a dying textile company when Buffett began buying its stock in 1962, because it was cheap. Under his leadership, he has transformed the company into one of the world’s largest holding companies. He diversified the company’s holdings to include Dairy Queen, ABC, GEICO and Coca-Cola. In 2009, he added Berkshire Hathaway’s largest acquisition to date—all of BNSF Railway, the former Burlington Northern and Santa Fe Railway.

Headquartered in Buffett’s hometown of Omaha, Neb., Berkshire Hathaway’s average annual growth is a staggering 20.3 percent over the past

46 years. During the past decade, its stock has earned a total return of 76 percent, outstripping the negative 11.3 percent return for the S&P 500. (It's worth noting that the only dividend ever paid on Berkshire Hathaway stock under the Buffett reign was 10 cents in 1967, prompting the congenial Buffett to quip that he "must have been in the bathroom when the dividend was declared.")

Today, at age 80, Buffett's business and business acumen have taken him around the world, but he is famous for his homebody tendencies. Though far from a simple man, Buffett does have simple, Midwestern tastes: He prefers meat and potatoes, snacks on peanut brittle and cherry soda (Pepsi, until he bought shares of Coke in 1988 and became one of the soda behemoth's biggest fans and investors, purchasing more than 14 million shares), drives an older model Cadillac, and has lived in the same house since 1958.

Each year, Buffett writes a letter to his shareholders. His missives are so chock-full of wisdom that they've been collected into a book, *The Essays of Warren Buffett: Lessons for Corporate America* (1996). He brings an equally folksy feeling to the Berkshire Hathaway shareholders' meeting in Omaha, which is dubbed "Woodstock for Capitalists." Shareholders ask Buffett questions during the opening meeting. He often plays his ukulele during the evening festivities. And he roams the exhibits of the many companies in which Berkshire Hathaway owns stock. The May 2010 meeting drew upward of 37,000 people.

As if the world needed further proof that his name is synonymous with money, in 2001, Benjamin Moore paints debuted "Buffett Green"—a hue the exact green of U.S. currency.

A HUMBLE BEGINNING

Buffett's humble backstory lends credence to the idea that legends are born and not made. The only son of a doting father and a distant, often verbally abusive mother, young Warren learned risk-taking from his father, Howard

Buffett. The elder Buffett opened a successful brokerage firm during the Great Depression before running for Congress in the 1940s and enjoying several terms as a Republican congressman.

His mother's influence was much less positive. Buffett and his two sisters worked hard to stay out of Leila Buffett's way—and out of the house. At age 6, little Warren went door-to-door, selling bottles of soda and chewing gum purchased from his grandfather's grocery store. By age 10, he was selling peanuts and popcorn at University of Omaha football games.

Young Warren also passed many happy hours adding large columns of numbers in his head, amassing stamps and bottle cap collections, and learning to calculate odds by racing his marbles down the back of the bathtub to see which one would hit the stopper first. Fascinated by his father's work, he spent a great deal of time at Howard's office learning about the stock market. In fact,

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the family discovered his nearsightedness when the young Buffett had trouble reading the Trans-Lux machine, an electronic display of major stock prices.

"I was born with the right skills, in the right place, at the right time," says Buffett, who moved with his family to Washington, D.C., after his father was elected to his first term in Congress in 1942. Young Warren saved almost every penny he earned, and by the time he was a teenager, he had bought a 40-acre farm as an investment. He doubled his

money four years later.

After graduating from Woodrow Wilson High School, he left for the University of Pennsylvania. But he returned to his native Nebraska after his sophomore year to finish his undergraduate degree at the University of Nebraska, Omaha. With degree in hand, at the age of 19, Buffett applied to Harvard's business school. But the recruiter rejected him, saying he was too young. So Buffett quickly fired off an application to Columbia's business school (after the deadline and too late for an interview) because that was where his idol, Ben Graham, was on faculty. Ben Graham was the author of the landmark 1934 book *Security Analysis*, and *The Intelligent Investor*, one of Buffett's favorite books. Columbia accepted Buffett without question. Though Buffett was younger and less mature than the GIs flooding postwar classrooms, he quickly earned a reputation for understanding and lecturing on the complexities of the stock market.

He was also the only student ever to earn an A+ from Graham. "The basic ideas of investing are to look at stocks as business, use the market's fluctuations to your advantage, and seek a margin of safety. That's what Ben Graham taught us. A hundred years from now they will still be the cornerstones of investing," Buffett would later say.

The professor took notice of Buffett, who offered to go to work for free at the firm of the elder stock "statesman." Though Graham had no job at the time for his star pupil, the friendship between them continued when Buffett returned to Omaha to work as a broker in his father's firm.

In 1952, Buffett married Omaha gal Susan Thompson and started a family: first a girl, Susan; and later, two boys: Howard and Peter. Always the teacher, Buffett taught a few night courses at the University of Nebraska, Omaha, and with the help of Dale Carnegie courses, overcame his initial fear of public speaking.

Then, in 1954, he got the call from Graham with the offer he had been



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hoping for: a position in his mentor's firm, Graham-Newman Corp.

Buffett and his family moved to New York, where he researched companies for investment opportunities for Graham's firm. Following Graham's belief that the market is servant, not master, Buffett also discovered a fascination with how a company worked, an interest not shared by Graham. By 1956, Buffett had built his own capital to \$140,000 from less than \$10,000. He was ready to return home and try things his way.

INDEPENDENT GROWTH

He founded Buffett Associates (later renamed Buffett Partnership) with \$105,000 in capital from seven limited partners and worked by himself from a cramped home office, investing for friends and family. At the time, Wall Street was the only place to have a serious career in finance. None of that mattered to Buffett. Using Graham's principle of "intrinsic" business value (which states that the measure of a business' true worth is completely independent of the price of its stock), and his own careful, studious approach,

Buffett researched company after company.

"I never talk to brokers or analysts," he says. "You have to think about things yourself." Within five years, his partnership earned a remarkable 251 percent profit, compared to the Dow's 74 percent. It was during this time that he met Charlie Munger, today vice chairman of Berkshire Hathaway. Omaha-born and Harvard Law School-educated (without a bachelor's degree), Munger has become one of Buffett's greatest friends and business collaborators.

After amassing partnership assets totaling \$44 million, in 1969, Buffett liquidated the portfolio except Berkshire Hathaway and Diversified Retailing. A year later, he named himself chairman of the board of Berkshire Hathaway and began building Berkshire into the giant it is today. His stay-the-course philosophy weathered the market's ups and downs. In 1983, *Forbes* for the first time named Buffett to its list of the 400 richest people. At age 53, he had reached billionaire status.

But the "Oracle of Omaha" took a very public hit in 1999 during the dot.com boom. Though he had a deep

respect for—and close friendship with—Bill Gates, Microsoft chairman and co-founder, Buffett was not shy about his reluctance to invest in technology. He had bought 100 shares of Microsoft upon meeting Gates in 1991, but held firm to a position he established in the late 1960s when technology stocks emerged. At that time, Buffett pronounced that he "will not go into businesses where the technology, which is way over my head, is crucial to the investment decision." Berkshire Hathaway stock soared to an astronomical \$80,000 per share in the late 1990s, but in 1999, as Internet stocks dominated the market, Berkshire Hathaway's net increase was a mere 0.5 percent per share. The media reported that Buffett had finally lost his Midas touch.

He held no news conference, never fought back in the media. Instead, Buffett continued with business as usual, investing in companies selling below their value. The dot.com bubble burst, as he had predicted, and Berkshire Hathaway's stock and his status as a stock market sage fully recovered. On Oct. 23, 2006, Berkshire Hathaway became the first U.S. stock to trade at \$100,000 a share. That same year, Buffett gave \$31 billion in Berkshire Hathaway stock to the Bill & Melinda Gates Foundation, the largest sum of money given to any charity in history. "I've felt that money was just claim checks that should go back into society," he said. In addition, he divided \$6 billion between the Susan Thompson Buffett Foundation (he changed the name from the Buffett Foundation when his wife died in 2004) and three other charities run by his children.

Bill Gates recently summed up his friend's seemingly clairvoyant ability to choose stocks. "[Warren] has a framework for looking into a business and the profit stream that [allows] him to make very quick and very sound judgments," noted Gates. "He has a lifetime of doing that, and his model just keeps getting better and better. No one else is as fanatical and talented." 🍌