

## Shawn Kumar on Warren Buffet

Warren Edward Buffet, born August 30, 1930, is the Chairman, CEO, and largest shareholder of Berkshire Hathaway, a publicly traded investment holding company. Buffett is well-known for his value investing philosophies and for his personal frugality.[1] Buffett has a near unmatched investment track record in the industry, generating compounded annual gains of 20.2% between 1965 – 2010 versus 9.4% S&P 500 performance during the same period.[2] I have chosen to study Warren Buffett not because he is an investing legend, but because of his ability to lead by example in the various domains of his life.

### Success in the Work Domain

Warren Buffett is one of a few investors who has handily beaten the broader stock market and has been actively investing for over 45 years. Part of Buffett's success is attributed to adopting a long-term, value-oriented investment approach in which he seeks to buy underpriced companies and waits patiently for his investments to appreciate to a "fair" value. Buffett has been quoted saying, "our favorite holding period is forever,"[3] referring to his desire to invest and hold high quality companies versus the shorter-term trading-oriented strategies adopted by many leading hedge funds. There are often nearer-term incentives to deviate from Buffett's investment philosophies. For example, during the Dot-Com Bubble in the late 1990s, it was possible to generate significant gains by investing in high-flier companies that did not have the fundamentals (earnings, cash flow, balance sheet, etc.) to justify their valuations but nonetheless were likely to trade higher and yield a return for investors. Buffett remained true to his underlying principles and avoided investing during the Dot-Com Bubble. Despite significantly underperforming the market in 1999, he remained a vocal opponent to the irrational exuberance that was taking place and ultimately, he was proven correct when the market crashed.[4] In addition to his phenomenal performance, there are a few specific aspects of Buffett's Work-related success that I most admire. The first is his adherence to a core set of principles over an extended period of time, as described above. The second is his ability to make investing a simple and approachable subject for the masses. Buffett encourages investors to do their homework and understand the businesses in which they invest. He openly shuns complex financial instruments such as leverage and derivatives, further attempting to keep investing on a level playing field.[5]

### Success in the Home Domain

Buffett faced some setbacks in his Home domain when his first wife, Susan, left him to pursue her own career in 1977. However, Susan and Warren stayed good friends until the time of her death in 2004. It is his wife Susan who introduced Warren to his long-term girlfriend Astrid Minks. Astrid and Warren married after Susan's death. It has been reported that Holiday cards were signed by all three parties – Warren, Susan, and Astrid. [6] Buffett's home life is clearly a unique situation. I chose to include this anecdote because Buffett made his situation "work" and maintained positive relationships with all the parties involved. Buffett is the father of three grown children – Susan, Howard, and Peter. He plans to leave the children with a small inheritance (approximately \$10 million each), thereby encouraging them to pursue their own careers and interests. [7] I admire this decision and believe it gives children the ability to forge their own path rather than follow in Warren's footsteps.

### Success in the Community Domain

Buffett has made a remarkable pledge to philanthropy; he plans to give away over 99% of his wealth to charity.[8] With Buffett's net worth estimated at \$50 billion, this pledge has the ability to change the world significantly.[9] While the magnitude of investment is staggering, the method of giving is even more remarkable. Buffett is primarily donating through the Gates Foundation and has specified that the donation must be spent within 10 years of his death. This represents a significant departure from traditional donation

plans because it has almost no element of legacy preservation. Buffett is not seeking naming rights by donating through the Gates Foundation. Further, funds will be dispersed within a short period after his death, which differs significantly from other philanthropists such as Rockefeller and Carnegie, whose legacies have been preserved for generations after their deaths. Buffett is instead focused on the impact of the donations, rather than the legacy they can help perpetuate; something I admire.

Buffett's involvement in philanthropy has been adopted by his children. Howard is committed to nature and wildlife preservation efforts. Susan is primarily focused on children, education, and family issues. Peter, a musician, has performed numerous benefit concerts. This is a clear example of a multiple-way win incorporating his home and community domains.

### **Lessons Learned and Four-Way Wins**

Although it is difficult to gauge the elements of Buffett's Self domain, he appears to be applying his unique, no frills approach to various aspects of life. He spends shareholder money carefully and is frugal with his own wealth. He donates significant sums of money without attempting to create a legacy for himself. His children are encouraged to "do their own thing" and are not receiving significant inheritance. His son Howard is on the Board of Berkshire Hathaway, further reinforcing Home / Work ties. His children's commitment to philanthropic causes, often overlapping with his own philanthropic efforts, reinforcing Home / Community ties. Finally, the gains he has generated for his shareholders are invested back into the community, closely binding his Work and Community domains. Buffett is a rare case study on someone who has achieved tremendous wealth while striking a balance and maintaining a consistent approach in other areas of his life.

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[1] Source: [http://en.wikipedia.org/wiki/Warren\\_Buffett#cite\\_note-investopedia-5](http://en.wikipedia.org/wiki/Warren_Buffett#cite_note-investopedia-5)

[2] Source : <http://www.berkshirehathaway.com/letters/2010ltr.pdf>

[3] Source : <http://investing-school.com/history/52-must-read-quotes-from-legendary-investor-warren-buffett/>

[4] Source: <http://news.bbc.co.uk/2/hi/business/1217716.stm>

[5] Source : <http://www.berkshirehathaway.com/2002ar/2002ar.pdf>

[6] Sources: CBS News article Wedding Bells For Warren Buffett published August 31, 2006 and Lowenstein, Roger. Buffett: The Making of an American Capitalist. Random House.

[7] Source: [http://www.macleans.ca/culture/lifestyle/article.jsp?content=20071015\\_110181\\_110181](http://www.macleans.ca/culture/lifestyle/article.jsp?content=20071015_110181_110181)

[8] Source:

[http://money.cnn.com/2010/06/15/news/newsmakers/Warren\\_Buffett\\_Pledge\\_Letter.fortune/index.htm](http://money.cnn.com/2010/06/15/news/newsmakers/Warren_Buffett_Pledge_Letter.fortune/index.htm)

[9] Source: <http://www.forbes.com/wealth/billionaires>