

EVEN BUFFETT ISN'T PERFECT

**What You Can – and Can't – Learn
from the World's Greatest Investor**

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MAIN IDEA

It's easy to see why an entire industry has sprung up around trying to decode the way Warren Buffett makes investment decisions:

- Warren Buffett is quite simply the most successful investor in history, with an impressive track record of beating the odds.
- Warren Buffett is one of the richest men in the world, having made his entire fortune by investing in other people's businesses.
- Warren Buffett himself is genuine and down-to-earth, often providing quotes that embody home-spun wisdom and common sense.

The only problem with trying to crack the Warren Buffett code is that Buffett cannot easily be pigeon-holed into one category or another. At times, he certainly acts like a value investor but then again at other times he is much more of a growth investor. He eschews a buy-and-hold approach to investing but doesn't hesitate to sell stocks when things go wrong. Buffett buys large-cap stocks for a period but then goes after small- and mid-cap stocks exclusively. He buys entire companies with strong managements in place but also invests in fixed-income securities. Buffett is perfectly happy to sit on huge capital reserves for an extended period of time but will then engage in some currencies, commodities and derivatives trading for a while. Warren Buffett's approach to investing is not at all consistent enough to lead to a single set of principles he never strays from. Rather, he constantly refines and changes his strategy in response to the market conditions of the day.

In summary, don't try and reduce what Warren Buffett does to a formula. It can't be done. If investing were that simple, the financial world would be quite a different place. Instead, be willing to mold your strategies as market conditions warrant. Become a student of the markets, and then change and adapt to your surroundings. This is far more likely to position you as a successful investor than you'll ever become by trying to decipher some kind of insider tricks Warren Buffett uses. The real world is much too complex for a formulaic approach to investing to work every time. Don't try to look for order where none exists. And above all, replace the numerous Warren Buffett perceptions with fact-based realities. That alone should increase your chances of success.

Warren Buffett Perceptions	Warren Buffett Realities	Page
Warren Buffett believes strongly in diversifying Berkshires's investment portfolio.	Berkshire actually grew to be a sizable enterprise because it concentrated its investments in the right areas. It is only since it became sizable that it has naturally had to diversify.	Page 2
Warren Buffett only buys value stocks – those with low price multiples. He is strictly a value investor.	Buffett tries to buy great companies at great prices and is equally willing to buy growth stocks as value stocks.	Page 2
Warren Buffett is the ultimate buy-and-hold investor – he buys stock with the expectation he will hold it forever.	Berkshire is a long-term investor and therefore its portfolio is tilted towards value stocks. This is more cost effective than momentum trading.	Page 3
Warren Buffett is a superior stock picker – he never makes bad investments. He thinks more like a business buyer than a stock buyer.	Unless you have the same financial resources as Berkshire, you need to act more like a stock buyer than a business buyer. Buffett makes mistakes and sells back stock picks on a regular basis so don't assume anyone is immune from this.	Page 3
Warren Buffett looks for strong management in the companies he acquires and assumes everything else will naturally fall into place.	It is true Buffett looks for superior management because he's not interested in running any of the businesses he acquires, but he also works hard to make sure each company stands on its own merits.	Page 4
Warren Buffett has got the acquisition formula all worked out. Every company he acquires does well.	Buffett has a great track record of turning lemons into lemonade for his company but he is a realist. If a purchase goes south, he is willing to take it on the chin and bailout.	Page 4
Warren Buffett is a shareholder activist – he deplores companies which are badly run.	Warren Buffett doesn't really factor director independence into his decisions. He buys companies led by people with good ethics and then trusts them to do the right things.	Page 5
Warren Buffett hates stock options and thinks superstar CEOs with outlandish pay packets are a problem.	It is true Buffett is a vocal critic of excessive CEO compensation. He does however believe options are an appropriate compensation tool, as long as they are structured properly and disclosed openly.	Page 5
Warren Buffett regularly calls for higher taxes, even though these will hit him the most.	This is entirely true. Buffett believes high taxes are good and estate taxes reflect the fact it is America which allows people to become rich in the first place.	Page 6
Warren Buffett is a critic of earnings guidance – he encourages his companies not to give any.	Again quite true. Buffett believes guidance encourages short-term thinking. Managers start managing earnings expectations rather than their businesses.	Page 6

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