Lessons From Warren Buffett

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If you ask anyone what one investor in the world they want to be like and receive advice from, the logical answer would be Warren Buffett. The living legend “Oracle of Omaha” has achieved investment results over the past 50+ years that all of us can only dream of. According to his most recent annual letter to shareholders his cumulative gain from 1964-2015 was more than 70 times that of the S&P 500 during the same time horizon. What is even more astonishing is the fact that the S&P 500 produced an 11,355% cumulative return during the same period.

In 2012, financial author Larry Swedroe wrote a book titled *Think, Act, and Invest Like Warren Buffett*. Contrary to what you may think the title indicates, this is not a book written to teach individuals how to replicate Buffett’s stock selection and investment strategy. Swedroe writes mainly from an investor psychology standpoint. Even with all the success Buffett has had his advice has always been simple and straightforward. Buffett has often recommended that a buy and hold strategy is favorable to market timing, as one of his most well-known quotes is “our favorite holding period is forever”. One of the premises of Swedroe’s book is that even with all the incredible success and wisdom that Buffett has possessed from investing; most people do not follow his advice. In the book Swedroe says investors should ask themselves at times of market declines, “What do you think Warren Buffett is doing right now?” or “How is Buffett reacting to this news?” The answer is he most likely is not doing anything or reacting to the headlines. More often than not that has been a good strategy to employ as long as your portfolio is set up properly.

The last few years his media appearances have increased considerably (although it seems he usually makes them come to Omaha) so we have more access to his knowledge than ever before. Also, every year many investment professionals look forward to Buffet’s annual letter to shareholders. If you have never read one of his annual letters they are generally full of optimism, economic data, company news, and funny tidbits. This year he even makes reference to the Tinder app, and if you don’t know what that is….that may be okay. The letter this year
did not disappoint and may help some of you feel more optimistic about the future of our great nation. His 2015 letter can be found Here.

For those of you that can’t find the time to read a 30 page letter (it’s worth it even if you are a slow reader), I wanted to give you some of the highlights.

Buffett points out that since it is an election year the candidates cannot stop talking about the country’s problems and as a result many Americans now believe that their children will not live as well as they themselves do. He goes on to say that “the babies being born in America today are the luckiest crop in history”. With a baby on the way for me in June, not only was I thrilled to read that but I completely agree. He says the simple logic behind that statement is that all of the families in his upper middle-class Omaha neighborhood enjoy a better standard of living than that achieved by John D. Rockefeller Sr. “His unparalleled fortune couldn’t buy what we now take for granted”. Buffett admits to wasting a lot of time watching YouTube now and playing bridge online.

I will add that the presidential race also seems to have a negative impact on investor sentiment. Often clients will tell me “if _____ wins we are doomed and the market will crash”. It is okay to have political opinions as I have my own as well, but they should not impact your investment decisions. The market as a whole is fairly efficient, so it is rationale to believe it is already pricing in the expected winner and their policy decisions. Wall Street is a big political donor to both parties, so it is reasonable to believe that they know more about what is going on than we do. It is also fair to say that they control most of the trading, and therefore set most of the prices of publicly listed companies.

Going back to Buffett’s letter he states that GDP per capita is now about $56,000 in the United States, which even after adjusting for inflation is a staggering 6 times the amount in 1930 (the year Buffett was born). He says the pie to be shared by the next generation will be far larger than today’s and that even though how it will be divided will be fiercely contentious the losing side will almost certainly enjoy far more goods and services than they do today. Here is another great quote from page 8 of his letter:

“For 240 years it’s been a terrible mistake to bet against America, and now is no time to start. America’s golden goose of commerce and innovation will continue to lay more and larger eggs.
America’s social security promises will be honored and perhaps made more generous. And, yes, America’s kids will live far better than their parents did.”

Don’t let the politicians or scary news stories impact your investment decisions. When you hear a scary news story or a doom and gloom report, just ask yourself the question Swedroe poses “How is Buffett reacting to this story?” or “What is he doing because of this?” Letting short-term thinking dominate your financial decisions can be devastating to your long-term net worth.

I know many of you can get frustrated regarding the tax reporting documents from Raymond James and the amount of information on them. Towards the end of Buffett’s letter he mentions their 2015 federal tax return was 30,400 pages, which is 6,000 pages more than the year before. On top of that they had 3,530 state returns filed. Having a taxable brokerage account isn’t that bad after all!

There is no doubt in my mind that if individuals are trying to mimic Buffett’s investment process and returns they will come up well short. If they can mimic his behavior, tune out the noise, and use his simplified approach of looking at the economy, they could do very well. If you buy and hold a passively managed portfolio you should over time earn your fair share of investment returns. If some of you are interested in learning more about Buffett his archive of letters can be found Here, and there is also a large amount of interviews with him available on YouTube. At 85 years old he is as sharp as ever, hopefully he is around for another 20 as I think the world needs a man like him.

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