

Who is Warren Buffet?

Warren Buffett is famous for the no-nonsense wisdom that he dispenses through his annual letters to the shareholders of Berkshire Hathaway, and thence to the world. If the true measure of understanding is how easily you can convey complex concepts in simple terms, then most financial analysts have no understanding of stocks and Buffett must have it all.

The son of a Congressman and stockbroker, Warren Buffet was born in 1930 in Omaha, Nebraska, where he still lives.

At the age of 11 he made his first share investment, buying Cities Service Preferred shares for \$38 each. He sold them when the price reached \$40 – only to see them rise to \$200 a few years later. It was his first lesson in the importance of investing for the long term.

In 1965 he took control of Berkshire Hathaway, a struggling textile producer. Then, in 1978, Buffet's old friend Charlie Munger became the company's Vice-Chairman.

It was a partnership made in heaven. Over the next 40 years, Buffet and Munger turned Berkshire Hathaway into an extraordinarily successful company, with holdings in a carefully limited portfolio of businesses.

A student of Benjamin Graham, Buffett built his wealth using a classic value-based approach, seeking out undervalued businesses with strong profit margins and outstanding growth potential. Today he is worth an estimated \$US40billion, making him the second richest person in the world, after Bill Gates.

Buffett is what the investment world knows as a 'value investor', although he himself regards it as so self-evident that all investing should be about value, that the very term is redundant. Whatever it's called, though, Buffett's approach is to purchase shares at a significant discount to their underlying value. He then sits on these shares until the value is no longer evident – or indeed forever, whichever is sooner.

The key point is that he treats shares not as chips to be traded, but as part ownership of a business. This is a fundamental distinction. Indeed, in his 2004 letter to the shareholders of Berkshire Hathaway, Buffett noted that:

'This thinking has been the cornerstone of my investment behaviour since I was 19. At that time I read Ben Graham's *The Intelligent Investor*, and the scales fell from my eyes. (Previously, I had been entranced by the stock market, but didn't have a clue about how to invest.)'

This epiphany has had some truly remarkable consequences. Buffett is now the chairman of the investment company Berkshire Hathaway, as he has been since 1965, and he owns 31% of the shares. With that stake now being worth approximately US\$40 billion, he is the second richest man in the world, behind Bill Gates (who coincidentally – or otherwise – is also now a director of Berkshire Hathaway).

Source: www.warrenbuffet.com