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2010

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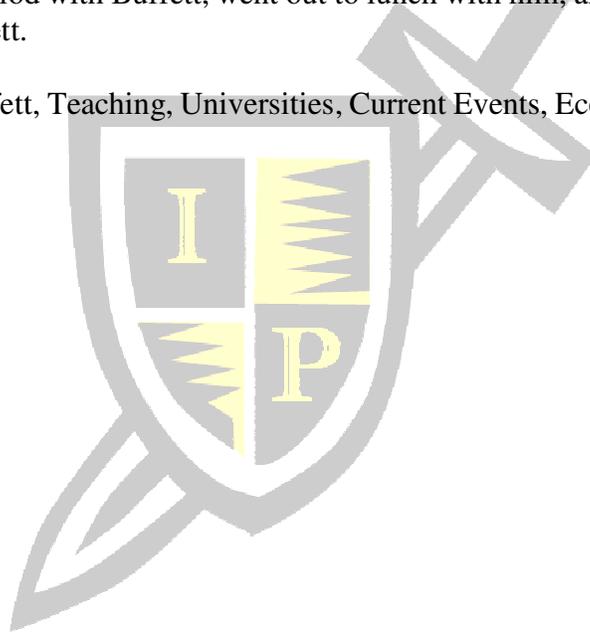
Lessons learned from “The Oracle of Omaha” Warren Buffett

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Abstract

This article documents a trip that was made by students from the University of Akron’s College of Business to visit Warren Buffett, chairman and CEO of Berkshire Hathaway and the second richest man in the world at his Global Headquarters in Omaha, Nebraska. Every year, Buffett invites a select number of schools to Omaha to visit with him and tour a few of his companies. This article discusses the strategy that the University of Akron used to get invited to visit Buffett, the activities throughout the day with Buffett, and the lessons learned from the “Oracle of Omaha”. The trip entailed visiting two of Berkshire Hathaway’s subsidiaries; Nebraska Furniture Mart and Borsheim’s Jewelers. The students also participated in a two hour question and answer period with Buffett, went out to lunch with him, and each student had their picture taken with Buffett.

Keywords: Warren Buffett, Teaching, Universities, Current Events, Economy, Investments, Values



Introduction

On November 6, 2009 27 University of Akron business students spent a day in Omaha, Nebraska, learning about business, ethics and life from the second richest man in the world, Warren Buffett, the “Oracle from Omaha”. Berkshire Hathaway is a conglomerate of over 70 companies with over 246,000 employees that also invests in numerous companies and investment vehicles.

In past years, Buffett spoke at several universities throughout the year however over the past 5 to 6 years he has invited a select number of schools to visit him in Omaha at his global headquarters. The number of schools has increased over the past few years. In the past few years he limited the number of schools to 17 per year however this past year he increased that number to 42 schools.

The University of Akron was one of a few select schools that were invited to Berkshire’s global headquarters this year.

Application

The process which we were able to attend was long and arduous. Approximately two and one-half years ago, I applied as a representative of the University of Akron to visit Buffett, but was flat out rejected. The administrative assistant told me that the list was so long, not to even bother putting our name down on the waiting list. However, this did not deter me. I had a burning desire to learn as much as possible about one of the most prolific business minds of our generation. So I decided to write an in-depth case study on Buffett and Berkshire Hathaway. Over a two-year period, I wrote the case, got it accepted at an academic journal, and sent a copy to Buffett requesting a visit with him. Within 10 days, Buffett wrote me a letter informing me that he was moving the University of Akron up on the list and we had been invited to visit him in 2009.

Selection Process

The next step was determining which students would attend. I decided to open the application process to any current student within the College of Business. I marketed the event as “A Day with Warren Buffett”. It was advertised by the administration over a two week period during the beginning of the fall 2009 semester. I limited it to two weeks due to the anticipated strong demand from students.

To be eligible to be included in the review process a student had to submit the following information: (1) current resume and GPA, (2) statement why they wanted to attend “Warren Buffett for a Day”, (3) letter of recommendation from a professor, excluding myself, and (4) the students had to pay their own way.

Over the two week period, there were 90 applications of which only 67 were officially complete. To determine which students would attend the event, I developed a rubric of specific factors that I was looking for when making a decision on who would attend the event. The rubric contained the following variables: educational and work backgrounds in finance and entrepreneurship (Buffett’s background is primarily comprised of this), giving back to their communities, and leadership/miscellaneous (something significant that really separated a student from the others).

From these 67 students, I chose 16 men and 11 women (2 minorities). Buffett required each school to invite at least nine women.

Day with Buffett

After flying in to Omaha the evening before, our day with Buffett started with a tour of Nebraska Furniture Mart, a subsidiary of Berkshire Hathaway and the largest independent furniture store in the country. The company was founded in 1937 by Rose Blumkin (Born 1893, aka, Mrs. B), a Jewish Russian immigrant who did not attend school and could not read, write or sign her name.

Mrs. B began her business career at age six working in her mother's store in Minsk Russia. By the time she was 12 she was managing 6 people. She moved to the United States in 1917. She borrowed \$500 in 1937 and started a used furniture store in the basement of her husband's pawn shop called the Nebraska Furniture Mart. She grew this to the largest independent furniture store in the U.S. and sold it to Buffett on a handshake in the 1980's for approximately \$55 million. Her motto was to sell cheap and tell the truth. She quit working only a few days before her death at age 103.

After our tour of the Furniture Mart, we then attended a two-hour question and answer (Q&A) session with Buffett at his global headquarters. The students asked a variety of questions about the economy, Buffett's investment methodology, and his value system. The questions and answers are later in the article.

After the Q&A, we went to lunch. Buffett drove with four students to a place called Piccolo's in South Omaha. At lunch several students sat by Buffett asking him questions and took pictures with him as well. This was followed by Buffett graciously allowing every single student the ability to take a picture with him. The day ended with a tour of Borsheim's, an upscale luxury jewelry store and another subsidiary of Berkshire.

Question and Answer Session with Buffett

There were five other schools that attended the event: University of Illinois, Texas Christian University, Boston College, University of Toronto, and the University of South Dakota. There were a grand total of 162 students and 6 professors. The question and answer period consisted of the following questions and excerpts from Warren Buffett.

Buffett on the Economy

Where do you view the US compared to the rest of the world in 25 years? Do you believe that the U.S. will still be the leading economic country in the world, or will the emerging countries develop and overtake the US? If so, which country(ies) specifically do you believe will become economic superpowers, and why?

We will still be the leading economy over the next 25 years, just by not by as much as we did in the past. Other emerging countries will catch up with us, but that is alright because the world is not a zero sum game. We will be better off if others are better. Our standard of living in the U.S. has increased seven fold in the 20th century.

The U.S. is the most important market in the world and will recover very fast but not at the same margin 10 years ago. China is finally converting to an economic system that works, and with the amount of people living there, it has great growth potential. China and other emerging economies will assist us with solving the world's problems (e.g., energy, biological, etc.). By having more of the world better off economically, it should help with security issues as parts of the world envy countries with the riches, which could lead to nuclear and biological attacks on the U.S.

How have the Bush and Obama administrations handled the economic crisis?

The housing bubble was the single major cause of the current economic crisis, and no one person or institution was to blame. The federal stimulus that we are currently injecting into the economy is like giving a lot of medicine to an ill patient. It is the right thing to do, but there will be many side effects (consequences).

We will come out of this financial mess. In the 20th century we went through a Depression, 2 World Wars, many recessions and our standard of living still went up seven fold. The stock market went up from 66 to 11,497 in the 20th century. We will do fine over time.

"Our economic system has worked extraordinarily well over time. It has unleashed human potential as no other system has, and it will continue to do so." The housing market is a \$20 Trillion asset class out of \$60 Trillion of the worth of people in the U.S.

The U.S. came the closest to collapsing ever in 2008....even more so than the Great Depression! I am not a fan of Bush, but he did the right thing. Bush's monetary policy can be summed up as: "This sucker is going down." The smartest thing Bush did was to give Paulson a blank check to do whatever was needed to stop the collapse of the financial markets. Paulson did a great job. Physically, I would never have been able to do what he did.

Paulson and Bernanke did a great job, however the Democrats are taking more credit than they deserve. Presidents should not be taking credit, really the treasury department and Fed are behind the policy changes.

You have to accept the fact that every 100 years we are going to have 15 bad years. You just have to assume that. But over time our system works.

The U.S. has a huge deficit. What will be the fate of the U.S. dollar and how will the government deal with this?

Twenty years ago we did not have this problem. Today, the U.S. has a \$1.4 trillion deficit of which \$400 billion is the current account deficit. Who finances our debt? (1) Sell debt to U.S. citizens, (2) Sell debt to other countries, and/or (3) Monetize the debt, which will lead to inflation.

Over time, our dollars will buy less. We do not know how far the dollar will fall as we have never been through anything of this magnitude before.

Cash is stupid. It is not a good asset over time. You want assets. Congress holds the destiny of the dollar. What congress has done so far is alright, but if they continue, the value of the dollar will continue to devalue.

Small business growth in the U.S. has been diminished. What does the U.S. need to do to increase small business growth?

You really have to love your business to be successful. If someone has a good track record they should be able to get educational assistance and money to start or grow a small business. The Small Business Administration (SBA) does this, but a new program between Buffett and Goldman Sachs just started a \$500 million program to assist small businesses.

I do not remember the name of the study, but there was a paper written on the correlation between IQ, GPA, and school attended, with business success. The findings indicated that the best correlation with success was when the person got started in business. Experience was the most important determinant in success.

The success of my businesses is dependent on networking and partnership. Form strong partnerships with people you can trust and feel comfortable to pursue common purposes.

In your opinion, what industries have the highest growth potential in the next 5 to 10 years?

I do not know. Predicting future trends is not really my game. I tend to look for things that are certainties. For example the Snicker's bar is the number one candy bar in the U.S. for the past 40 years. I look for things that are predictable. However, fuel efficiency will be big that is why I like railroads.

Buffett on Investments

Why did you buy Burlington Northern Santa Fe (BNSF) now?

We have a shareholder's meeting once a year outside of Omaha and this year it was in Dallas. We own several companies in the Dallas area (e.g., ACME Brick) and we already had an investment in BNSF. So I decided to drop by BNSF. BNSF was preparing a presentation to someone else and I listened as they practiced their presentation and then made them an offer to buy the company (after talking with Bill Gates and Charlie Munger, Vice-Chairman of Berkshire Hathaway). They took the offer of \$100 a share to their Board of Directors and they approved the offer.

Some of the reasons why we wanted to into the railroads included: you cannot outsource the railroads to China, there were 1.5 million people who worked for the railroads after WW II, however today there are less than 200,000 people who work there. BNSF gets 470 miles to a gallon of diesel fuel and it is environmentally friendly. The railroads move 40% of all freight and this will increase over time. We also see exceptional growth potential in the West over the Eastern U.S.

What are your thoughts on the possible downgrade of S&P on Berkshire Hathaway?

It has not happened yet and naturally I do not like it. It was somewhat expected after the acquisition of BNSF, but I am still confused. Our company had a good credit rating when we

owned 22.6% of BNSF, but now that we will own 100% of the company they are threatening to downgrade our rating.

Berkshire does not fit the general risk template as other companies, so I am not concerned with credit ratings. Berkshire is not like other typical models of business. So this does not affect my philosophy of doing business.

When surveying companies, what are the red flags that stand out when you look at a company?

“If you like 100 shares of a company, you should be willing to buy the entire company.” I look at companies that I understand. I like to see track records over the past 10 years and I like to know where the company is going in the next 10-20 years. I also like to focus on a limited number of areas.

I approach investing like recruiting for a basketball team. I look for 7 footers. Not only do I look for 7 footers, but they also have to handle the ball. I like durable competitive advantage (moats). For example, Wrigley’s was founded in 1891 and Coke in 1886. Today Coke sells 1.6 billion 8 ounce servings in the world every day. If you add one penny to that that is \$16 million a day or \$6 billion a year.

I want things that are not going to change a lot. I also want a quality management team that has passion and is ethical. Finally, I have to buy it when the price is right.

The problem that Berkshire has is that it is too big. There are not that many good ideas for companies our size.

I recently went on Amazon.com and bought a 1951 edition of Moody’s; how many people do you know that do that? I started to look through the pages for companies that I might be interested in buying/investing. This is exactly what I did when I started investing. I would look at earnings growth, price per share, and industry among other things and if they passed that test I would interview management to determine if they were honest.

Give us an example of a right pitch that you are waiting to swing at.

An example of the right pitch was when I bought 6% of Coke in 1988. Nothing bad could have happened. Sales were up every year. The company needed little capital. Coke only makes the syrup. You do not need a lot of ideas to get rich. You only need five good ideas.

Why are you switching from companies like Coke and Gillette to cash eating companies like BNSF and utilities?

I have shifted my focus from cash oriented businesses to utilities and regulation organizations. The reason is due in part to the fact that I do not want to run Wall Street firms.

Why the new paradigms in utilities? Because little cash capital is required and they are very profit oriented. There is the potential for growth and price flexibility.

What caused you to invest in Goldman Sachs after what happened to Solomon Brothers?

Goldman Sachs needed affirmation that they were going to survive. Goldman’s

fear was a run on the bank. There was the Federal Deposit Insurance Company (FDIC) for common people in banks, but not a FDIC for investment banks.

Buffett stepped up to be the equivalent of the FDIC to restore confidence in the Financial system even though Goldman Sachs really did not need the cash!! This was similar to what J.P. Morgan did in the Great Depression.

Buffett is mad at the big salaries on Wall Street. He said that he can understand paying a .400 hitter, but not .240 hitters. There are too many .240 hitters making too much money!!

Would you encourage us to pick individual stocks or mutual funds?

If you are willing to invest the time to select stocks then go that route. If not, dollar cost average in low cost mutual funds.

Buffett stated that he was at a party in September 2008 and was surrounded by a group of women who normally ignored him, but all of a sudden he was very popular and they were all worried if their money was safe. He said NO and they all stayed around him.

My best year in investing was in 1954 and that was a recession. "If you wait to see Robins, spring will be over". "Buying stocks at the time people want to sell –the best time to be buying stocks is now particularly in this financial crisis "why save sex for your old age?"

Buffett's Value System

Why do you choose to invite students to Omaha? What do you expect to get out of it?

I graduated from the University of Nebraska at age 19 in 1950. I then applied to Harvard to get an MBA and they rejected me. That was a mistake for them and their development office. I then read a book by Benjamin Graham called the Intelligent Investor and I knew that I wanted to study under him at Columbia. So I wrote to him and got accepted at Columbia.

Graham was a role model of mine and a professor at Columbia. He taught one class at Columbia and donated the money back to the school. Graham did this to volunteer his time and give back to society. He mentored me. So I chose to do the same.

If I can help 5-10% of the students I am happy to do this. I love to do this. Buffett wants students to know that ethics and hard work are the most important things.

How does Global Philanthropy help third world companies and economic growth?

I have five foundations and farm this out to people who can do a better job than me. I believe in specialization of labor, where you should focus on what you do well. I believe in the Gates Foundation that is why I gave him so much money. The reasons why I believe in the Gates Foundation are: (1) Bill Gates spends a lot of time doing this, (2) We have the same goals, which are to save every human life on earth, and (3) He has blood in the game...he works with his own money!!

You need to give back to society because society is what helps you to become successful. It is important to note that no one human being is any more important than another.

What are the biggest mistakes/failures that you have made and what did you learn from them?

The biggest decision you will make in life is your spouse. Buffett jokingly stated that you should look for someone with low expectations. In life, there will be mistakes but do not agonize over those mistakes because character needs to be built out of those experiences. Buffett noted that people's failure in life, is due in part to the fact that they vacillate on their setbacks and refuse to explore further prospects which may bring solutions to their impending worries. For example, Buffett notes that "He once spent \$3 billion to buy a shoe company that is now worthless." Buffett also bought 50% of a Sinclair station early in his career and it went to 0 that was 20% of his net worth at the time. That is equivalent to an opportunity cost of \$8 billion today.

Do not make mistakes for the fun of it but rather avoid mistakes if it is within your jurisdiction. Buffett stated "You only have to do a very few things right in your life so long as you do not do too many things wrong." You cannot agonize over mistakes—only one hitter in MLB history has hit over .400 (Ted Williams hit .406) and even then, he failed nearly 60 percent of the time

Learn from other people's mistakes and experiences, not just your own. The most important mistakes are ones of omission — those that do not show up in statements, but rather are missed opportunities. Buffett noted "the things I needed to do, and can do, but did not do them will constitute my biggest mistakes in life." For example, only investing 10% in BYD instead of 20%.

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you will do things differently." No matter your past failures, you can still make amends and start anew –never agonize over mistakes.

Always be well positioned for opportunities. Do not bother with other people's successes rather stay within your circles of competence. "Microsoft founder Bill Gates once told Buffett: "Warren, you have to invest in computers. They will change the way you do everything." Buffett responded: "Will they change the way you chew gum? Will they change whether you chew Spearmint or Juicy Fruit? Will they change whether you drink Coke or Pepsi? If not, then I will stick with my investments and you stick with yours."

Working without sleep leads to bad and unproductive decision-making process. Feel good about what you want in life –a driven passion is result oriented. It is a terrible mistake to think that getting all the dollars will suffice happiness and eternity

We benefit from others' decisions. Society rearranges the benefits. Buffett won "the ovarian lottery" because he was born in America to two loving parents. Society gave him everything he has and he feels he has the duty to give much of it back to society because that is where the wealth belongs. Therefore, no one was born a mistake, just identify what you love doing be the best.

"Once we have earned an income enough to cover our subsistence needs, what is the appropriate balance between leisure, family, and work?" Or, to be more academic, "what can be done to end the erosion of the personal and economic security of the American worker?"

I have as much fun now as when I had \$10,000. I get to work in a job that I love

and I think you are out of your mind for taking jobs you do not love. Take a job that if you were independently wealthy you would do. Loving what you do is much more important than money making.

Satisfaction does not come with money; just with what you have got and what you are doing. Love what you do and you will be satisfied. It is important to recognize that happiness is not about making money, but money is a nice thing to have.

Work with people and an organization you love and admire. If you do not have this then move on.

I do not let my work decisions/investments change my way of life: I do not miss a movie, a meal, a trip or event with my wife and kids. In spite of my anticipated busy schedules in the future, I have resolved not to substitute quality time with family and friendships for my ambitions.

Buffett still lives in Omaha because all his friends and family are there. He likes the fact that his grandchildren go to the same high school that he attended. I would not be any happier with several houses in Los Angeles or New York than he is with his home in Omaha.

What trees would you plant today and for whom?

I do not believe in giving money to build buildings with names on it at schools. I have more respect for the cleaning lady who gives money on Sunday to charity than the person who puts their name on a building. We have needs in the U.S. 20% of the households are earning \$21,000 or less.

I am for equality to help others and for equal rights for men and women. Buffett asked what if you had the opportunity to design the world you came into prior to leaving the womb—but with one caveat—you must design the world prior to finding out what type of person you will be and where you will be born in the world

- Will you design the world much differently seeing it through the eyes of other races, religions, sexes, etc.
- It is easy to design the world once you know the type of person you will be.

Who had the most influence on your life besides your father?

Buffett responded: (1) His wife, (2) Benjamin Graham, his professor at Columbia, and (3) a Jewish friend that recently died in Omaha. He stated that his Jewish friend had to hide from the Nazis in WW II and someone turned him in and he had to go to a concentration camp. He survived the concentration camp and for the remainder of his life when he met people he would determine whether or not to be their friend based upon the premise of: Would this person hide me from the Nazis? Buffett also stated that “the most important things [if not the most important] is unconditional love. If you can find two or three people who love you unconditionally, you are a lucky person.”

Summary

Several students have already thanked me for the experience. Many felt it was the most amazing experience that they ever had. The opportunity to meet Warren Buffett has not only enriched 27 University of Akron students and their professor, but also society as a whole,

because we are educating everyone we meet about Buffett's keys to success and his value system.

There was ample publicity that was generated from the event. There were three articles in the Omaha World Herald and two articles in the Akron Beacon Journal (ABJ). The Akron Beacon Journal did an article that was on the front page of the paper. Furthermore, I was interviewed on WTAM 1100 in Cleveland, which ran throughout the day.

It is my sincerest hope that the students will integrate Buffett's values into their own lives and share their experiences with others in their communities. This includes having a passion for what you do, living life with humility and integrity, respecting everyone you meet, and surrounding yourself with people who love you, care about you, and want you to become successful.

