5 February 2015
St. Cloud, Minnesota -26C degrees

Thank you for the opportunity to speak to the CFA Society of Brazil last week. It was a great honor.

Enclosed are my slides from the presentation titled: “Warren Buffett: Greatest Investor or Greatest Business Teacher?”

Additionally, I enclose an article from the Financial Times (5 February 2015) where Seth Klarman comments that Mr. Buffett is “. . . first and foremost, a teacher. . . . “

The purpose of my presentation was to encourage you to read and study Warren Buffett’s letters to shareholders. These are valuable and free educational tools.

So, get together with some friends for a coffee or beer and discuss Mr. Buffett’s letters.

Good Luck!!

Here are some other references that you may find helpful.

Recommended by Warren Buffett:

“The Intelligent Investor” by Benjamin Graham.

J. P. Morgan Annual Letter by CEO Jamie Dimon

Other resources:

“Value Investing: From Graham to Buffett and Beyond” by Bruce C. N. Greenwald and Judd Kahn

Sincerely,

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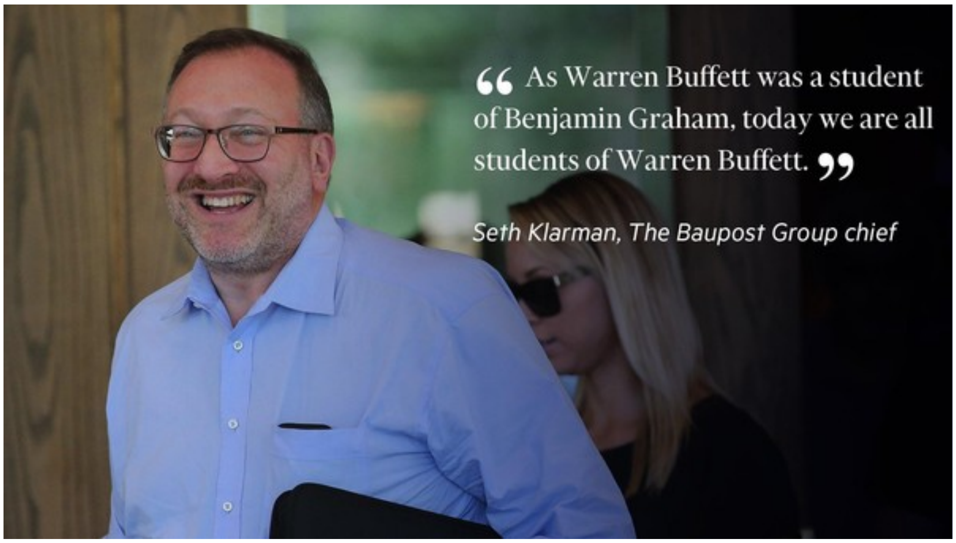
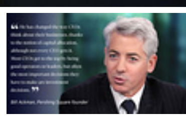
FINANCIAL TIMES

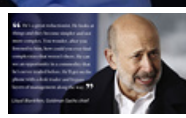
February 4, 2015 3:29 pm

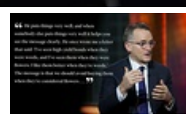
Seth Klarman: What I've learned from Warren Buffett

Seth A Klarman









As Warren Buffett was a student of Benjamin Graham, today we are all students of Warren Buffett.

He has become wealthy and famous from his investing. He is of great interest, however, not because of these things but in spite of them. He is, first and foremost, a teacher, a deep thinker who shares in his writings and speeches the depth, breadth, clarity, and evolution of his ideas.

He has provided generations of investors with a great gift. Many, including me, have had our horizons expanded, our assumptions challenged, and our decision-making improved through an understanding of the lessons of Warren Buffett.

1. Value investing works. Buy bargains.

2. Quality matters, in businesses and in people. Better-quality businesses are more likely to grow and compound cash flow; low-quality businesses often erode and even superior managers, who are difficult to identify, attract, and retain, may not be enough to save them. Always partner with highly capable managers whose interests are aligned with yours.

3. There is no need to overly diversify. Invest like you have a single, lifetime "punch card" with only 20 punches, so make each one count. Look broadly for opportunity, which can be found globally and in unexpected industries and structures.

4. Consistency and patience are crucial. Most investors are their own worst enemies. Endurance enables compounding.

5. Risk is not the same as volatility; risk results from overpaying or overestimating a company's prospects. Prices fluctuate more than value; price volatility can drive opportunity. Sacrifice some upside as necessary to protect on the downside.

6. Unprecedented events occur with some regularity, so be prepared.

7. You can make some investment mistakes and still thrive.

8. Holding cash in the absence of opportunity makes sense.

9. Favour substance over form. It doesn't matter if an investment is public or private, fractional or full ownership, or in debt, preferred shares, or common equity.

10. Candour is essential. It's important to acknowledge mistakes, act decisively, and learn from them. Good writing clarifies your own thinking and that of your fellow shareholders.

11. To the extent possible, find and retain like-minded shareholders (and for investment managers, investors) to liberate yourself from short-term performance pressures.

12. Do what you love, and you'll never work a day in your life.

Seth Klarman is a value investor and portfolio manager of the investment partnership The Baupost Group LLC. This year is the 50th anniversary of Warren Buffett taking control of his investment vehicle, Berkshire Hathaway

In depth

Warren Buffett: Know when to hold 'em

Investors awaiting Warren Buffett's annual letter will get three for the price of one this year. The founder of Berkshire Hathaway is planning a special "golden anniversary" publication

Continue reading

Warren Buffett: Greatest Investor or Greatest Business Teacher?

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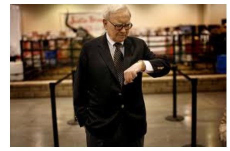
Berkshire Hathaway

- Warren Buffett – one of the richest men in the world
- Only person in top 25 who has earned his wealth by Investments
- Recent partner – Jorge Paulo Lemann



BERKSHIRE HATHAWAY INC.

2011
ANNUAL REPORT

Berkshire's Corporate Performance vs. the S&P 500

Year	Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
2004	10.5	10.9	(.4)
2005	6.4	4.9	1.5
2006	18.4	15.8	2.6
2007	11.0	5.5	5.5
2008	(9.6)	(37.0)	27.4
2009	19.8	26.5	(6.7)
2010	13.0	15.1	(2.1)
2011	4.6	2.1	2.5
Compounded Annual Gain – 1965-2011	19.8%	9.2%	10.6
Overall Gain – 1964-2011	513,055%	6,397%	

Share Repurchases
Treasury Stock

"We have witnessed many bouts of repurchasing that [have] failed . . . CEOs never stop believing their stock is cheap."

Share Repurchases
Treasury Stock

"When Berkshire buys stock in a company that is repurchasing shares, we hope for two events:

First, we have the normal hope that earnings of the business will increase at a good clip for a long time to come;

and second, we also hope that the stock *underperforms* in the market for a long time as well."

Share Repurchases
Treasury Stock

"The logic is simple: *If you are going to be a net buyer of stocks in the future. . .*you are hurt when stocks rise. You benefit when stocks swoon."

"*Emotions*, however, too often complicate the matter: Most people . . .take comfort in seeing stock prices advance."

"These shareholders resemble a commuter who rejoices after the price of gas increases, simply because his tank contains a day's supply."

Share Repurchases of Berkshire Hathaway

"We like making money for continuing shareholders, and there is no surer way to do that than by buying an asset – our own stock – that we know to be worth at least x for less than that – for .9x, .8x or even lower."

"Nevertheless, we don't enjoy cashing out partners at a discount . . ."

Building Trust

"Charlie Munger, Berkshire's Vice Chairman and my partner, and I feel good about the company's progress during 2011.

Here are the highlights:"

"I've run out of good news.

Here are some developments that hurt us during 2011"

Building Trust

"Other [businesses] produce good returns in the area of 12-20%.

A few, however, have very poor returns, **a result of some serious mistakes I made in my job** of capital allocation.

These errors came about because **I misjudged** either the competitive strength of the business being purchased or the future economics of the industry in which it operated."

Building Trust

"A few years back, I spent about $2 billion buying several bond issues of Energy Future Holdings, an electric utility operation serving portions of Texas.

That was a mistake – a *big* mistake."

"Last year, I told you that 'a housing recovery will probably begin within a year or so.'

I was dead wrong."

Trust and its Strategic Value

"Berkshire's newer shareholders may be puzzled over our decision to hold on to my mistakes.

Any management consultant or Wall Street advisor would look at our laggards and say **'dump them**.'"

"That won't happen."

The Basic Choices for Investors and the One We Strongly Prefer

"Investment possibilities are both many and varied.

There are three major categories, however, and it's important to understand the characteristics of each. So let's survey the field."

The Basic Choices for Investors and the One We Strongly Prefer

1) Investments that are denominated in a given currency include **money-market funds, bonds, mortgages, bank deposits**, and other instruments.

Most of these currency-based investments are thought of as "safe." In truth they are among the most dangerous of assets.

Right now bonds should come with a warning label.

Their beta may be zero, but their risk is huge.

The Basic Choices for Investors and the One We Strongly Prefer

The riskiness of an investment is not measured by beta.

"Bonds promoted as offering **risk-free returns** are now priced to deliver **return-free risk.**"

The Basic Choices for Investors and the One We Strongly Prefer

The second major category of investments involves assets that will never produce anything, but that are purchased in the buyer's hope that someone else . . . will pay more for them in the future.

Tulips, of all things, briefly became a favorite of such buyers in the 17th century.

The Basic Choices for Investors and the One We Strongly Prefer

"Our third category: investment in productive assets, whether businesses, farms, or real estate."

"I believe that over any extended period of time this category of investing will prove to be the runaway winner among the three we've examined. More important, it will be *by far the safest.*"

Mr. Buffett's shares his mistakes during his first 25 years

"Cigar Butt" approach to investing

Time is the friend of the wonderful business, the enemy of the mediocre.

It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.

Mr. Buffett's shares his mistakes during his first 25 years

Good jockeys will do well on good horses, but not on broken-down horses.

Great management can't do well in quicksand.

Mr. Buffett's shares his mistakes during his first 25 years

After 25 years of buying and supervising a great variety of businesses, Charlie and I have not learned how to solve difficult business problems.

What we have learned is to avoid them.

Mr. Buffett's shares his mistakes during his first 25 years

I learned to go into business only with people whom I like, trust, and admire.

We've never succeeded in making a good deal with a bad person.

Don't over do it.

Mr. Buffett's shares his mistakes during his first 25 years

My most surprising discovery: the overwhelming importance in business of an *unseen force* that we might call "the institutional imperative."

He has learned to work very hard to avoid companies where the "institutional imperative" is strong.

Institutional Imperative

(1) As if governed by Newton's First Law of Motion, an institution will resist any change in its current direction;

(2) Just as work expands to fill available time, corporate projects or acquisitions will materialize to soak up available funds;

Institutional Imperative

(3) Any business craving of the leader, however foolish, will be quickly supported by detailed rate-of-return and strategic studies prepared by his troops;

(4) The behavior of peer companies, whether they are expanding, acquiring, setting executive compensation or whatever, will be mindlessly imitated.

How does Warren Buffett analyze a business?

25

Four Investing Tenets

- Business Tenets
- Management Tenets
- Financial Tenets
- Value Tenets

26

Business Tenets

1. **Is the business simple and understandable?**

"Buying stocks or companies without understanding the company's operating functions—its products and services, labor relations, raw material expenses, plant and equipment, capital reinvestment requirements, inventories, receivables, and needs for working capital—is unconscionable," says Buffett.

27

Business Tenets

2. **Does the business have a consistent operating history?**

3. **Does the business have favorable long-term prospects?**

Are there "Headwinds"
What is the competitive advantage - "Moat"

28

Management Tenets

4. **Is management rational?**

In Buffett's mind, the only reasonable and responsible course for companies that have a growing pile of cash that cannot be reinvested at above-average rates is to return that money to the shareholders.

For that, two methods are available: raising the dividend or buying back shares.

29

Management Tenets

5. **Is management candid with its shareholders?**

"When you have able managers of high character running businesses about which they are passionate, you can have a dozen or more reporting to you and still have time for an afternoon nap."

6. **Does management resist the institutional imperative?**

30

Financial Tenets

7. **What is the return on equity?**

Net Income - Capital Gains and Losses – Extraordinary Items = Operating Income.

Marketable Securities are valued at cost

31

Financial Tenets

8. **What are the company's "owner earnings"?**

Owner earnings = NI + depr - necessary capx- necessary working capital

32

Financial Tenets

9. **What are the profit margins?**

Cost control is critical.

Lemann's partner Carlos Alberto Sicupira has a favorite phrase:
"Costs are like fingernails: You have to cut them constantly."

33

Financial Tenets

10. **Has the company created at least one dollar of market value for every dollar retained?**

Market value of the company should increase by at least 1 dollar for each dollar retained in earnings.

Other Thoughts:
The company should have very little Debt
Buffett doesn't use EPS

34

Value Tenets

11. **What is the value of the company?**

Owner earnings at discounted value increased by growth

35

Value Tenets

12. **Can it be purchased at a significant discount to its value?**

A 25% discount provides a "margin of safety."

36

Four Investing Tenets

- **Business Tenets**
  - Do you understand the business?
    - Strategy, Industry, Costs Structure
- **Management Tenets**
  - Can you trust management?
    - Are they competent?
      - Do they act in the Shareholder's best interest?
- **Financial Tenets**
  - ROE, Earnings, Margins, Retained Earnings
- **Value Tenets**
  - Present Value of Company
    - Purchase at a Discount

37

Building a Corporate Culture

Memo

To: Berkshire Hathaway Managers ("The All-Stars")
cc: Berkshire Directors
From: Warren E. Buffett
Date: July 26, 2010

Memo

To: Berkshire Hathaway Managers ("The All-Stars")
cc: Berkshire Directors
From: Warren E. Buffett
Date: July 26, 2010

The priority is that all of us continue to zealously guard Berkshire's reputation. We can't be perfect but we can try to be. As I've said in these memos for more than 25 years: "We can afford to lose money – even a lot of money. But we can't afford to lose reputation – even a shred of reputation." We must continue to measure every act against not only what is legal but also what we would be happy to have written about on the front page of a national newspaper in an article written by an unfriendly but intelligent reporter.

Memo

To: Berkshire Hathaway Managers ("The All-Stars")
cc: Berkshire Directors
From: Warren E. Buffett
Date: July 26, 2010

Sometimes your associates will say "Everybody else is doing it." *This rationale is almost always a bad one if it is the main justification for a business action.* It is totally unacceptable when evaluating a moral decision. Whenever somebody offers that phrase as a rationale, in effect they are saying that they can't come up with a good reason. If anyone gives this explanation, tell them to try using it with a reporter or a judge and see how far it gets them.

Memo

To: Berkshire Hathaway Managers ("The All-Stars")
cc: Berkshire Directors
From: Warren E. Buffett
Date: July 26, 2010

If you see anything whose propriety or legality causes you to hesitate, be sure to give me a call. However, it's very likely that if a given course of action evokes such hesitation, it's too close to the line and should be abandoned. *There's plenty of money to be made in the center of the court.* If it's questionable whether some action is close to the line, just assume it is outside and forget it.

Warren Buffett: Greatest Investor or Greatest Business Teacher?

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Warning – DO try this at home!