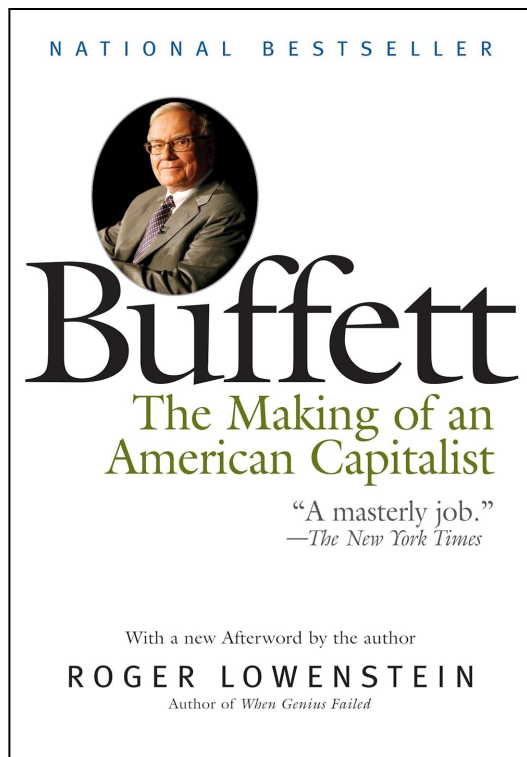


## Buffett: The Making of an American Capitalist, by Roger Lowenstein

*"Be fearful when others are greedy and greedy when others are fearful."*

**Summary:** [Warren Buffett](#) is arguably the most successful investor in history. Since 1965 Buffett has generated returns of **~20% per year while the stock market has returned ~10%**. This biography, published in 1995, chronicles the **childhood, character, traits, skills, habits and key life decisions** of the "Oracle of Omaha."



**Buffett is somewhat of a paradox:** a billionaire who has a modest lifestyle; a phenomenally successful investor who eschews the revolving-door hype cycle of modern Wall Street; a brilliant dealmaker who cultivates a **homespun aura**.

Our author, expert journalist Roger Lowenstein, draws on three years of **unprecedented access** to Buffett's family, friends, and colleagues to provide the first definitive, inside account of the life and career of this American original. His philosophy is simple: buy stock in companies that are undervalued on the market and hold on forever. **"Our favorite holding period is forever."**

Lowenstein has written this brilliant book without any interaction with Buffet himself who "would not collaborate in any way, nor attempt to interfere with the project".

Still, we get an intimate-yet-complex mosaic of the man: Buffett's principled congressman-father, his unfulfilled raging mother, his **intense desire to be rich from an early age**, his love of numbers, his **conservatism and loss-aversion**, his unyielding resistance to change, his shy but outspoken style of showmanship (a craft he honed), and his unique application of Graham/Dodd value principles



Warren E. Buffett

**Author bio:** what does Buffett, a man with limitless resources, do for fun? He plays the ukulele, among other things.

Buffett is also an **avid bridge player**, follows **baseball**, and unabashedly **enjoys naughty food** almost daily, e.g. McDonalds, burgers, hot dogs, ice cream, Coca-Cola. Living life that Buffett. More on him, shortly.

But first: this book is by **Roger Lowenstein**. Roger reported for the Wall Street Journal for over a decade. His work has appeared in Bloomberg, The New York Times, the Washington Post, Fortune, and Atlantic. His books include the NYT bestsellers *Buffett*, *When Genius Failed*, and *The End of Wall Street*, and the critically acclaimed *Origins of the Crash*, *While America Aged*, and *America's Bank*.



He has three children and lives with his wife, Judy Slovin, in Cambridge, Massachusetts and Tenants Harbor, Maine.

**2-5-10-20:** a distillation exercise aimed to increase clarity via constraint.

- **This book in 2 words:** Value investing.
- **This book in 5 words:** Integrity, Patience, Value, Legacy, Discipline.
- **This book in 10 words:** Long-term value investing with integrity, patience, discipline, wisdom, and philanthropy.
- **This book in 20 words:** Warren Buffett's journey: embracing long-term value investing, personal integrity, disciplined patience, mentorship from Graham, and commitment to philanthropic legacy.



**My #1 highest-value takeaway from this book:** In a word: **simplicity**. Buffett didn't adopt fancy algorithms or flash trading. Instead, he buckles down and spends hours reading 10-Qs and 10-Ks. He does the research. This made me appreciate Buffett's passion for **doing the work**.

This book also increased my appreciation for **long-term thinking**. Buffett's goal is to own a company forever. Buffett's strategy unlocks what Einstein called "the eighth wonder of the world" — the power of **compound interest**.

Who is Warren Buffett?

First off, Buffett is a **very funny man**. He exudes wit and humor. This seems to have two benefits for him: 1) laughter **endears people**, and 2) his messages are **memorable**. Allow me to share several examples of Buffett's wit and humor in action—some of which you may have heard:

### Humorous quotes

- *"Only when the tide goes out do you discover who's been swimming naked."*
- *"If past history was all there was to the game, the richest people would be librarians."*
- *"Chains of habit are too light to be felt until they are too heavy to be broken."*
- *"Risk comes from not knowing what you're doing."*
- *"I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."*
- *"Beware of geeks bearing formulas."*
- *"The difference between successful people and really successful people is that really successful people **say no to almost everything**."*
- *"I don't look to jump over 7-foot bars; I look around for 1-foot bars that I can step over."*

### Humorous stories or examples

- Gorat's Steakhouse: Warren has often joked about his diet being a key to his longevity. Referring to his frequent meals at Omaha's Gorat's Steakhouse, he quipped that he's "one-quarter Coca-Cola."
  - Ukulele performances: Warren has given several light-hearted ukulele performances, including serenading Bill Gates on his birthday.
  - Annual Shareholder Meetings: Buffett and Munger have turned these into entertaining affairs. They've shown humorous skits, sold products, and made numerous jokes.
  - On gold: Buffett once humorously compared gold to a cube of metal that "people fondle" vs. productive assets like land or companies.
  - On economic downturns: He's often lightened the mood with quips about downturns being the time to buy more, referring to them as sales.
  - See's Candy: Buffett often jokes about consuming See's Candy as a key to his diet and as evidence of the brand's irresistibility.
  - On financial tools: Buffett once joked that he doesn't use the popular Bloomberg terminals; he just checks the weather on his computer.
  - On Twitter: When he joined Twitter in 2013, his first tweet was: "*Warren is in the house.*" A playful nod to a man, known for traditional methods, embracing new technology.
  - On earnings: He once said, "*Earnings can be as pliable as putty when a charlatan heads the company reporting them.*"
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But who is Warren Buffett beyond humor? Based on this book, a few themes emerged:

## Character

- *Integrity*: Buffett often emphasizes the importance of doing the right thing and has a famous saying: "*It takes 20 years to build a reputation and five minutes to ruin it.*"
- *Frugality*: Despite his immense wealth, Buffett is known for his modest lifestyle. He still lives in the Omaha home he **bought in 1958 for \$31,500**.
- *Humility*: Buffett is known for his humble demeanor, often attributing his success **to luck and the people around him**.
- *Philanthropic*: He pledged to **give away 99% of his wealth** and co-founded the Giving Pledge with Bill and Melinda Gates. Today, 240 (very) wealthy people have signed the [Giving Pledge](#).

## Skills

- *Entrepreneurial*: at age 5, Buffett set up a gum stand on his family's sidewalk selling Chicklets to passersby. Later Buffett and "Russ" sold lemonade, setting up shop at a higher-traffic location.
- *Analytical*: Buffett's ability to analyze businesses, their intrinsic value, and their future prospects is **unparalleled**.
  - Even at age 9, Buffett and his best friend would collect bottle caps from the nearby gas station's soda machine to analyze what soda was selling best - root beer? Coke? Crush?

- *Long-term vision:* He focuses on the **long-term potential** of an investment rather than short-term market fluctuations.
  - *“Our favorite holding period is forever.”*
- *Effective communication:* Buffett is known for his annual letters to shareholders, which are clear, insightful, and often **infused with humor**, as mentioned.

## Habits

- *Continuous Learning:* Buffett is an avid reader and spends a **significant portion of his day reading** annual reports, newspapers, and books.
- *Staying within his 'Circle of Competence':* With rare exception, e.g. Apple, Buffett (and Munger) only invest in businesses they **thoroughly understand**.
- *Avoiding Debt:* He has often warned about the risks of **excessive debt**.

## Emotions

- *Temperament:* Buffett often stresses the importance of having the right temperament for investing—**being greedy when others are fearful and fearful when others are greedy**.
- *Patience:* He's known for holding onto his investments for decades.
  - *“Our favorite holding period is forever.”*
- *Calm:* Buffett remains calm during market downturns, viewing them as **opportunities rather than threats**.
  - *“The stock market is the only market where things go on sale and all the customers run out of the store.”*

## Key Life Decisions

- *Acquisition of Berkshire Hathaway and use of float:* Originally a textile company, Berkshire Hathaway became the **main investment vehicle** for Buffett, soon flush with free cash flow (“float”) from the **premiums of acquired insurance companies**.
  - This “float” offered an unfair advantage: incredibly low cost of capital to invest off their own balance sheet.
- *Partnership with Charlie Munger:* Teaming up with Munger in the 1960s was pivotal. Munger influenced Buffett's investment strategies significantly, e.g. **paying a bit more for high growth opportunities**.
- *Investing in Apple:* one could argue a hardware/services business was outside Buffett's circle of competence. But he saw the utility in the iPhone and the loyalty of Apple consumers. Buffett began buying in 2016 and their current holdings are worth approximately **\$176 billion**, more than **five times the invested capital of ~\$31 billion**. In other words, his Apple investment has yielded **\$145 billion in gains**.
- *Philanthropic Pledge:* His decision to give away the bulk of his wealth has influenced other billionaires to do the same.

## Formative Life Stories

- *Learning from His Father:* Buffett's father, Howard Buffett, was a stockbroker and U.S. Congressman. He instilled in young Warren the values of **integrity** and **hard work**.
  - *Coca-Cola Investment:* After the 1987 stock market crash, he bought Coca-Cola stock, seeing its long-term value. This turned out to be one of his **most profitable investments** (Apple is his #1 most profitable investment)
  - *The Salomon Brothers Incident:* In the early 1990s, Buffett stepped in as interim chairman of Salomon Brothers to steer the company through a **major scandal**, demonstrating his leadership and **crisis management skills**.
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Let's go back to Buffett as a boy.

## Early Life

- Milestones
  - Age 6: Sold chewing gum (remember [Chiclets](#)?) on the street and door-to-door.
  - Age 7: Bought his first stock, three shares of Cities Service Preferred, for \$38 per share.\*
  - Age 13: **Filed his first tax return**; delivered newspapers.
- *Personality Traits:* Curious, disciplined, and showed early signs of being mathematically inclined.
- *Good At:* Analyzing businesses from a young age, selling products (e.g., chewing gum, Coca-Cola bottles), and saving money.
- *Not Good At:* Typical school subjects that didn't interest him. For instance, while at the University of Pennsylvania, he felt some of the subjects **weren't directly beneficial for his passion for investing**, so he transferred to the University of Nebraska-Lincoln to finish his undergraduate degree.
- Books: one of the many books that influenced Buffett was "[One Thousand Ways to Make \\$1000](#)."

\*The purchase of three shares of Cities Service Preferred at age 11 which he later sold for a small profit, **only to watch them skyrocket**. This taught him the value of patience, and longer holding periods.

## College & Early Professional Life

- Milestones
  - Age 16: Enrolled at the Wharton School of Business at the University of Pennsylvania.
  - Age 20: Graduated from the University of Nebraska–Lincoln.
  - Age 21: Studied under Benjamin Graham at Columbia Business School; net worth around \$10,000.
- Study Focus: Business and investment.
- Key Experience: Meeting Benjamin Graham, the “father of value investing,” at Columbia was arguably the **most important influence in his career**, next to partnering with Charlie Munger.

- Schools of Thought: Value investing, as propagated by Ben Graham.
- Clubs: No notable mentions in the book.
- Girlfriend: He married Susan Thompson in 1952.
- Influence of Ben Graham: Graham was a pivotal influence on Buffett, teaching him the principles of [value investing](#). One of Buffett's famous quotes (which reflects Graham's influence) is:

*"Price is what you pay. Value is what you get."*

## Building his empire

- Milestones
  - 1956: Age 25, started Buffett Associates, Ltd.; had seven partners and \$105,000 in capital.
  - 1959: meets Charlie Munger over dinner\*
  - 1962: Age 32, became a millionaire; partnership assets exceeded \$7.2 million.
  - 1964: Began buying Berkshire Hathaway stock, a textile manufacturing firm, at \$8 a share.
  - 1965: after initially buying shares in Berkshire Hathaway, a **struggling textile company**, he takes control. The company was based in New Bedford, Massachusetts. Buffett discontinued Buffett Associates, Ltd.
  - 1970: Age 40, named himself as chairman of Berkshire Hathaway; first letter to shareholders. Berkshire started with a **book value of \$19 and a market value of \$29**.
  - 1980s: Acquired various other businesses; shares reached \$8,000.
  - 1988: Started buying Coca-Cola stock; eventually accumulated about 7% of the company for \$1.02 billion.
  - 1990s: Share price exceeded \$32,000.
  - By 2000s: Diversified holdings in **insurance, jewelry, utilities, clothing, and food companies**.

\*Buffett met Charlie Munger in 1959 through **mutual connections in Omaha**. There was instant intellectual chemistry and they ended up speaking for hours.

- Strategy evolution: While Buffett was an adept value investor, Munger influenced him to consider businesses with excellent fundamentals and **growth potential**, even if they weren't super cheap.
- As a result, Buffett's pure value investing philosophy evolved into *"finding an outstanding company at a sensible price."*

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**What does Berkshire Hathaway own today? A lot:**

# DBT VENTURES



You can think of Berkshire Hathaway as a **holding company** that buys companies—either partially, or outright.



The largest sectors are: **insurance, energy, manufacturing, retail, and service.**

Don't discount the partially-owned companies above. For example, their stake of Apple is worth approximately **\$160 billion**.

What I love about this visual is the basic simplicity of companies they buy: See's Candies, Dairy Queen, Benjamin Moore.

To me it represents a provocative counterpoint to the prevailing "sexy" companies so prominent in Silicon Valley/SaaS marketing.

## How does Buffett evaluate stocks?

- Buffett is a big believer in critically reading [10-K company filings](#).
  - Buffett (and Munger) will read not only the 10-K for a given company, but also **all the competitors in the space**. This typically yields 5-10 companies and 5-10 10-K reports to read which take ~1 hour to read.

- So their starting point is: **reading 10-Ks for 5-10 hours.**
  - Looked for companies with a high **return on equity** over many years, particularly those with ROE above 12%.
  - Preferably debt-free companies, or **low debt-to-equity ratios.**
  - Companies with large **free cash flows.**
  - A stock price that's a fraction of its **intrinsic value**, aiming for a margin of safety.
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## Track Record

- Top 5 Investments (Based on significant contributions and notoriety. Exact performances may vary):
  - Coca-Cola: Bought in 1988; multibillion-dollar appreciation.
  - GEICO: Started buying in 1951; eventually owned the entire company.
  - American Express: Bought after the Salad Oil Scandal in the 1960s; considerable appreciation.
  - See's Candies: Acquired in 1972; provided consistent annual profits.
  - Apple: Began buying in 2016; has appreciated massively. His current holdings are worth approximately \$176 billion, more than five times the invested capital of ~\$31 billion! In other words, **his Apple investment has yielded \$145 billion in gains!**
- Worst Investments (These might not all be in the book):
  - Berkshire Hathaway (textile business): Acknowledged as a mistake due to continuous capital needs and minimal returns.
  - Dexter Shoes: 1993; ended up being worthless.
  - US Air: 1989; faced significant losses, though eventually recovered some value.
  - ConocoPhillips: Bought before the oil and gas crash in 2008.
  - Tesco: Lost several hundreds of millions before selling.

## Personal Legacy

- Family: Had three children—Susie, Howard, and Peter. His relationship with his wife Susan was complex; they remained married, but she moved to San Francisco in the 1970s.
- Giving Pledge: Buffett pledged to give away 99% of his wealth and co-founded the initiative with Bill and Melinda Gates to encourage other billionaires to donate the majority of their wealth. As of 10/9/23, a total of [240 people have signed the Giving Pledge](#).
- For Fun: Plays the ukulele, loves playing bridge, and is a fan of baseball.