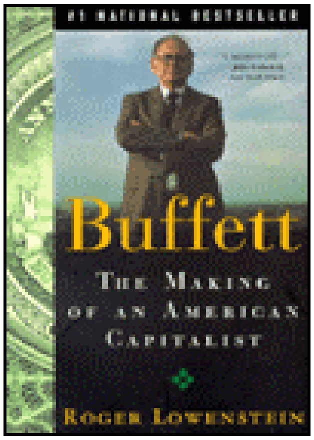

Buffett: The Making of an American Capitalist (1995), Roger Lowenstein.

Academic scholars, Wall Street pundits, and the media continually tell us that it is impossible to beat the markets. Yet Buffett had a compounded annual gain of 29.2 percent, while the major stock averages advanced 11 percent or so a year.

So, what are the lessons we can glean from studying this icon in American investing. In reading Lowenstein's excellent work, I have attempted to pull a few of Buffett's dominant and recurring qualities to the forefront for our consideration.

1. Singular Focus: In writing to Jerry Orans, Buffett ripped the conventional wisdom as regards investing for capital or income. "The objectives you mention in your letter mean nothing. That is all a lot of bull put out by the sponsors. Everyone has the same objective - to end up with more dough than they start with a minimum of risk." *Pg. 61*
2. Staunch Independence: "I will tell you the secret of getting rich. You try to be greedy when others are fearful and you try to be very fearful when others are very greedy. We derive no comfort because important people, or vocal people, or great numbers of people agree with us. Nor do we derive comfort if they don't." *Pgs. 50 & 85*
3. Serious Research: "Knapp's first impression was that 'Buffett knew almost every balance sheet on the New York Stock Exchange. He had a most unusual appetite for research. Buffett spent the day reading annual reports and business publications and talking on the telephone. He said he read 'a couple thousand' financial statements a year." *Pgs. 45, 49, 61, & 130*
4. Knowing When to Sell: "It seemed that the dizzier the Go-Go's success, the greater was Buffett's urge to apply the brakes. In May 1969 he, stunned his partners with the news that he was liquidating Buffett Partnership. And now, **at the height of the bull market, he was getting out**." And again, "by 1987, Berkshire was stuffed with cash. In the spring, he quietly sold every stock in the portfolio save for the 'permanent' three. He was stumped for a place to reinvest." *Pgs. 100, 114, 296*
5. Knowing When to Buy: In 1973, "he would run his finger down the price-earnings column of the sock table, and practically every P-E was in single digits. It was one of those rare times on Wall Street: America was being given away, and nobody wanted it. Buffett's reaction was instinctive: Be greedy when others are fearful. In 1974, with the market at a low, he said in Forbes, "Now is the time to invest and get rich." *Pgs. 150, 161*
6. Ignoring the Noise: "By the end of 1973, the market value of Berkshire's portfolio, which had cost a total of $52 million, had sunk to only $40 million. His paper losses worsened significantly in 1974. His net worth, as measured by Berkshire's prices, fell by half. Yet it seemed to dampen his spirits not at all. In the sixties, when he had been making tons of money, he had been full of fearful prophecies. Now, with his portfolio underwater, he was salivating." *Pg. 156*
7. Values and Patience: "Fund managers who had been eager to buy the nifty fifty at *eighty* times earnings were unwilling to buy Affiliated at five times. To Buffett, this was madness. He tartly observed, 'I have never been able to figure out why it's riskier to buy something at $40 million than at $80 million. By early 1986, over the last twenty-one years, Berkshire stock had multiplied 167 times, while the Dow had merely doubled." *Pgs. 156, 275, 316*