

Some Thoughts of Chairman Buffett

By Colin Nicholson

If you want to write a best-selling investment book, you might do worse than to write one about Warren Buffett, Chairman of Berkshire Hathaway. After all, he has been one of the most successful investors in the last half century. Except you would be a bit late, there is already a plethora of books on his life and methods along with software that purports to let you invest like he does.

So why are there not a swag of investors out there replicating his results? I think there two main reasons.

Firstly, he is a product of his education. His teacher was Benjamin Graham. Many of Graham's other students have also done very well. Maybe not as well as Buffett, but they are near the top of the rankings. They are all value investors. They are highly disciplined and very patient. They play a long-term game. Unfortunately, many of the readers of the Buffett books have no time, no patience and no discipline. Value investing does not yield the instant gratification demanded these days. In short it is just not sexy.

Secondly, he is a product not of what he knows, but how he thinks. Buffett may not be one of a kind, but he is of a rare type. He thinks differently to other people. Not all of them, but most of them. If you think of an investment rule, Buffett invariably succeeds by turning it on its head. Recently I have come across some interesting insights into this different mode of thinking employed by Buffett.

On Timing the Market

Almost all funds managers and especially value investors like Buffett tell us it is disastrous to try to time the market. In the case of many funds managers, this is generally self-serving advice, in that they want us to leave our money with them through thick and thin. Value investors like Buffett have a more honest position. They really seem to believe that timing the market does not work and that they do not do it. Really?

Take this quote of the words of Chairman Buffett at the recent Berkshire Hathaway annual meeting, reported in Barrie Dunstan's Smart Investor column AFR August 20-21 2005:

We try to price, rather than time, purchases.

Sounds cute doesn't it? But think about it. If you only buy a stock AT THE TIME that it is cheap, aren't you timing the market? I would maintain that Warren Buffett is one of the great market timers. He just doesn't realise that he is a market timer. Doesn't he repeat Benjamin Graham's fable of Mr Market who some TIMES offers you ridiculously high prices and at other TIMES offers you ridiculously low prices? Doesn't he tell us we can ignore the TIME when the price is high and wait for the TIME when the price is low? So it is all semantics – buy at the right price, or the right time – same thing really.

On Ignoring the Market

Barrie Dunstan's column goes on to report that Buffett added something very profound on this issue of timing purchases. A common excuse I hear a lot after two and a half years of bull market is that the market is too high. It is too late to buy now. It is best to wait until the next bear market. What these inexperienced investors do not tell you is why they did not buy in the first half of 2003.

This idea of buying only at the perfect time is very pervasive in the investment community. It has even been trotted out in recent times in the media by value funds managers, who are bemoaning that there is no value left in the recent market. Now read what Barrie Dunstan reports Buffett as adding to his earlier quote:

In our view, it is folly to forgo buying shares in an outstanding business whose long-term future is predictable because of worries about an economy or a stock market that we know to be unpredictable.

So, again, we see Buffett turning on its head the idea that you do not buy because the market has become expensive. This is because he does not buy the market. He buys stocks. And he only buys a few stocks. Compare this to most funds managers who basically hold a diversified index-related portfolio. Of course they need to look at how expensive the market is – they are effectively buying the whole market. Buffett does not buy the whole market. He buys only a few outstanding stocks.

The remark quoted above demonstrates that he ignores the market. Mr Market is a madman. He is there to be taken advantage of, but his views are never to be listened to. Buffett looks at all Mr Market's offerings and WHEN he offers to sell a great stock at an incredibly low price, Buffett pounces on it, regardless of what the overall market is doing.

So Buffett's secret is that he knows the right price and waits for the TIME when it is available. Then he acts fearlessly. This lack of fear, born of absolute conviction, is what most investors lack. There are always doubts. Great investment decisions are always the most difficult. Unless, that is, you have a clarity of focus on price and time, the like of which Warren Buffet has demonstrated over the last half century. As Shakespeare wrote in *Julius Caesar*:

*There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;*

Colin Nicholson writes a weekly market comment column in *BRW* and educational articles in *AFR Smart Investor* (previously in *Shares*). He is author of a book on his methods -*The Aggressive Investor*, which can be purchased from his website www.bwts.com.au, which is a valuable resource for investors.