Warren Buffett Wealth
Principles and Practical Methods Used by the World’s Greatest Investor

Robert P. Miles

John Wiley & Sons, Inc.
In loving memory to my heroes

Timothy John Miles
Leo McCrossin
Ross Steggles
Contents

Acknowledgments vii

Introduction xi

Chapter 1 Study the Best to Be the Best 1

Chapter 2 The Making of a Billionaire: A Timeline of Warren Buffett’s Wealth-Building Lifetime 23

Chapter 3 What Kind of Investor Are You? 43

Chapter 4 Developing an Investment Philosophy 69

Chapter 5 Know What You Own 85

Chapter 6 Invest in Main Street, Not Wall Street 103

Chapter 7 Buy to Keep, and Buy a Lot of a Few 123

Chapter 8 How You Can Learn from Buffett’s Investment Mistakes 141

Chapter 9 Common Myths about Investing, Wealth, and Buffett 163

Chapter 10 Five Investment Principles from the Next Warren Buffett 179

Chapter 11 Warren Buffett’s Lessons on Having a Rich Life 191

Chapter 12 The Journey of a Lifetime 213

Appendix “The Superinvestors of Graham-and-Doddsville” 225
### Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommended Reading</td>
<td>243</td>
</tr>
<tr>
<td>Index</td>
<td>245</td>
</tr>
<tr>
<td>About the Author</td>
<td>251</td>
</tr>
</tbody>
</table>
Acknowledgments

Although the skills used to write are different than those used in presentations, written and oral forms of communication have both shaped the content of this book. Therefore I am most grateful to the hundreds of associations, service clubs, student groups, nonprofit organizations, bookstores, book clubs, investment clubs, local and international chamber of commerce groups, investment conferences, wealth workshops, universities, and private and public corporations that have invited me to discuss Warren Buffett and Berkshire Hathaway.

Dottie Walters, Felicia Ferrara, Dave Bell, Karen Post, Robyn Winters, and many members of the National Speakers Association have helped make me a better presenter. This book should “wrightfully” be dedicated to Janet Wright. She suggested that I send my Buffett CEO audio CD—recorded live before fifty-seven Canadian CEOs—to Nightingale Conant, the world’s largest producer and distributor of audio programs. Dan Strutz, new product development manager at Nightingale, had just completed a market research poll, and listeners were asking for an audio program about Warren Buffett. This connection led to my recording a six-hour, twelve-session audio series titled How to Build Wealth Like Warren Buffett: Principles and Practical Methods Used by the World’s Greatest Investor.

If you enjoy this book, an outgrowth of the audio program, full credit belongs to Janet. If you don’t take away at least one new idea about wealth or investing using similar principles as Warren Buffett, then the blame belongs to me. Either way I am grateful to Janet and all of her wonderful support, enthusiasm, and encouragement throughout the book creation process.

I was thrilled to be invited to deliver a half-day Buffett Wealth workshop in Australia suggested by Susie Christie and her assistant Donna Bunnell of the Global Speakers Bureau based in Sydney, Australia. Many of the
graphs, charts, and tables used in this book were developed for my live speeches in Sydney and Melbourne for the Wealth Workshop clients of Freeman Fox. Their CEO Peter Spann, Australia’s foremost wealth educator, and his seminar team led by Lisa Cadigan were a joy to meet.

In the United States, the Financial Forum Speaker’s Bureau based in Logan, Utah, and led by Lyn Fisher have been excellent representatives for my speaking engagements. Our friends to the north have invited me to speak many times. Nicole Martel, CEO of Interlogic of Montreal, Canada, asked me to speak at her annual conference designed exclusively for CEOs. Geoffrey Carlton, Michael Lee-Chin, Jerry Santulli, Jeff Hull, Sarah Tucker, and Jessica McKnight from Berkshire Securities and AIC Funds in Canada have been very loyal clients.

Helping the message reach a third continent is Norman Rentrop. Along with his associates Andreas Hahne and Sandra Witscher, Norman helped organize half- and full-day workshops in Bonn, Germany. Norman simultaneously translated my presentation into German for those Europeans unable to understand my English or me.

I’m also grateful for the feedback and insights of Ross Brayton. I’m indebted to Professor Wendy Guo of the University of Nebraska at Omaha for inviting me to present to her students each year. Thanks to Gary Repair, executive producer and director from UNO TV, and his dedicated team for guiding me through the unique world of video program development and distribution—and to executive grip Michael Shearn and his friend John Newman (who only reads the acknowledgments: Hi, John!) for their opinions, support, and encouragement.

Thanks to Ralph Malloy, owner-manager of the 114th Street Omaha Dairy Queen, for his assistance in helping me host the Berkshire Hathaway pre-annual meeting reception and author fest. Jim Ross, manager of the Omaha airport Waterstones Booksellers, has made the DQ reception an extraordinary success and is a ready friend and valuable resource to every Buffett author.

For the past five years Berkshire’s wholly owned subsidiary Sees Candy has kindly opened their Los Angeles manufacturing, packing, and shipping facilities and offered a very unique tour each spring, on the morning before Charlie Munger’s Wesco Financial annual meeting. Tour leader and longtime Sees CEO Chuck Huggins and his team, led by Customer Service Director Dave Harvey, and the Sees associates at every level have made this event a sweet success.
Helping launch the annual Graham Buffett Book Conference in Los Angeles are Roland Shank, the foremost Buffett-related book collector, and money managers and publishers Rich Rockwood and Adam Jones.

International investment managers François Rochon of Montreal, Canada, and Wayne Peters of Sydney, Australia, inspired and provided several charts in this book. I wish to thank Chris Wholeben and Kristen Friend for their technical support, their Excel and PowerPoint expertise, and their chart creation talent.

Special thanks to The Motley Fool, Tom and David Gardner and Selena Maranjian, for creating a personal finance forum for all investors.

My gratitude goes to the fine folks at Berkshire Hathaway and related subsidiaries: Warren Buffett, his assistant Debbie Bosanek, and Charlie Munger. To Robert Bird and Jeffery Jacobson of Wesco Financial; Bill Child, R.C. Willey Home Furnishings; Harrold Melton, Acme Brick; Barnett Helzberg and Jeff Comment, Helzberg Diamonds; Stan Lipsey, the Buffalo News; Susan Jacques, Borsheim’s Jewelry; Randy Watson, Justin Boot; Lou Simpson, GEICO; Brad Kinstler, Fechheimer; Al Ueltschi, Flight-Safety International; Kevin Russell, NetJets; and Louie, Irv, and Ron Blumkin, Nebraska Furniture Mart.

Few accomplish much without the aid of a mentor, and the person most responsible for getting me noticed by a publisher has been Janet Lowe, a prolific author. She and Wiley representative Tim Hand were instrumental in publishing my first book. Intellectual property attorney Ken Sweezy guided me through the audio and book contracts without jeopardizing the delicate relationship between an author and a publisher.

Special mention goes to Andy Kilpatrick. His unending dedication to chronicling the story of Warren Buffett and Berkshire Hathaway has been recorded in biannual book updates titled Of Permanent Value.

Thanks to John Wiley and Sons: publisher Joan O’Neil and executive editor Debby Englander, along with David Pugh, Greg Friedman, Alexia Meyers, Alison Bamberger, Aditi Shah, and P. J. Campbell. This book really took shape under the capable hands of Ruth Mills, my developmental editor. Every author should be blessed to have someone like Ruth to work alongside.

Friends John Baum, Whit Wannamaker, Lee Bakunin, Hendrick Leber, Nigel Littlewood, Stan Teschke, Camille Roberts, Greg Ekisian, Ken Walters, John Bryant, Tom Hastings, John Cavo, Ben Keaton, John Zemanovich, Will Harrell, and Frank Booker have played a valuable role in
guiding me in the right direction. High school buddy, college roommates, and business associates Tim Cleary and Jim Klaserner have made me a better businessman and therefore a better investor.

My family—in particular, my daughter Marybeth—has been especially understanding and supportive. My mother was supportive and strong despite losing a mother, brother, son, and nephew in less than twelve months. To Katie Miles, my niece, whose father was my hero. Thanks to my niece, Sarah, who enjoys reading, writing, telling funny jokes, and doing things s-d-r-a-w-k-c-a-b. My friend Nancy Pellotte and I share the same humor and emotional age as Sarah.
Introduction

"Wealth is the product of a man’s capacity to think.”
—Ayn Rand

If you invested $10,000 in 1956 with Warren Buffett when he first started his investment partnership, you would be worth today, after all fees, expenses and taxes, over $300 million.

Buffett’s amazing success is all the more remarkable because he doesn’t own any patents, hasn’t developed a new technology or retail concept, or even started his own business. The tools he used are available to everyone in the capitalistic world: extraordinary discipline and adhering to the principles of value investing.

The good news from the man who has created over $100 billion in capital (and he’s still working on creating more) is that there is no secret to wealth building by investing in other people’s businesses. The promise is that, by using the same principles and methods, you too can create wealth, preserve it, and pass it on to future generations.

This book offers a Horatio Alger story that you may have never thought possible. It’s the story of how one man, without the benefit of inheritance, without taking over a family business as a starting point, without doing what everyone else was doing, without inside information or special connections, without a large salary or stock options, created abundant wealth and plans to give it all back to society.

The premise of this book is that by carefully selecting the ownership of a business and owning it for a lifetime—hopefully, several lifetimes—you can create enormous wealth.

To become wealthy is easy: Just be born into it, marry into it, or win the lottery. But most people become wealthy, like Warren, by owning a
business and living below your income. For many of us, the best way to own a business is by owning parts of it through the stock market, just as Warren Buffett has done. If you're really good at the investment and management game, you can then use the earnings of your business to buy more ownership in other businesses and eventually the whole business.

Buffett Wealth is not about whom you know, but rather what you know. Buffett Wealth is not how much money you have, but how you invest what you have.

I've written this book to tell you the story of one of the few men to become a billionaire by investing in the stock market—in other words, by investing in other people's businesses, first in part and then eventually in whole by acquiring wholly-owned subsidiaries.

I've written two books and given numerous speeches about Warren Buffett. He is a favorite topic and passion of mine, and I hope of yours by the time you finish reading this book. Hopefully, in addition to learning about his character and life lessons, you'll also understand important investment principles and techniques.

Warren Buffett is known as a value investor and a values manager. Fortunately, he is able to choose to work with exactly those people he likes, admires, respects, and trusts. Warren invests in value enterprises but not without a values manager. He encourages his people to always do first-class business in a first-class way.

Buffett's conglomerate, Berkshire (pronounced BerkSure) Hathaway, is publicly traded on the New York Stock Exchange (its class A share [symbol NYSE: BRKA] and class B share [symbol NYSE: BRKB] are the first and second highest price stock on any exchange in the world) and is now the twenty-fifth largest employer, with more than 165,000 employees. His NetJets subsidiary can be considered the sixth largest private airline based on the number of corporate jets under management. Buffett maintains all of this with no large headquarters building, no large staff, no management stock options, no funny accounting, no yachts, no Rolls Royces, no mansions or typical trappings of wealth. Warren Buffett enjoys one of the longest CEO tenures: thirty-nine years and counting.

To give you a perspective of Warren's investment record, consider in the last century that the Dow Jones Industrial Average went from 66 to 11,000. The NASDAQ, formed in 1971, went from 100 to close the century at approximately 2,000. Berkshire Hathaway, under Warren Buffett's
management and leadership, has added one zero every decade since he first acquired it in 1962. The stock has gone up from 7 to 70 to 700 to 7,000, to over 70,000 dollars per share.

Warren has done all of this without unfriendly deals, without sizeable employee layoffs, without requiring additional capital shareholder contributions, without major management changes or restructurings or investing in promising new-economy stocks or risking capital in turnaround businesses. Remarkably his accomplishments have taken place without issuing management stock options to himself or anyone else, without paying himself more than $100,000 in salary, without enjoying the typical trappings of most CEOs, and without ever selling a single share of his company’s stock.

Warren made himself a billionaire and one of the world’s richest men; at the same time, he also created enormous wealth for his partners and shareholders. For every dollar in wealth he created for himself, his family, and his foundation, he has created more than two additional dollars in wealth for others.

WHY I DECIDED TO WRITE THIS BOOK

I want to tell you about my background. I started my career first as a student of investing. I made all the classic investment mistakes. I graduated from one of the top business schools in the country without learning about Warren Buffett or the simple concept that all investing is value investing.

After thirty years of making all the wrong investment moves, I finally asked myself: Who is the best at investing and what can I learn from that person? The answer, of course, was Warren Buffett. So I became an avid student of everything he said and everything he had written. In 1996 I purchased his stock when he first offered the B shares (1/30th the share price and economic value of the A shares), and I have since more than doubled my investment.

You might find it interesting how I came to writing about Warren Buffett. I thought the man and his investment vehicle were so profound that I could come up with 101 reasons why you should own it. So over a period of 101 days, on the Motley Fool’s Internet discussion boards, I posted a new, unique reason to own his company. For example, consider the fact that Berkshire’s stock is the only one to issue an owner’s manual and hosts one of the largest annual meetings of any publicly traded company, when some fifteen thousand shareholders from all fifty states and many other countries