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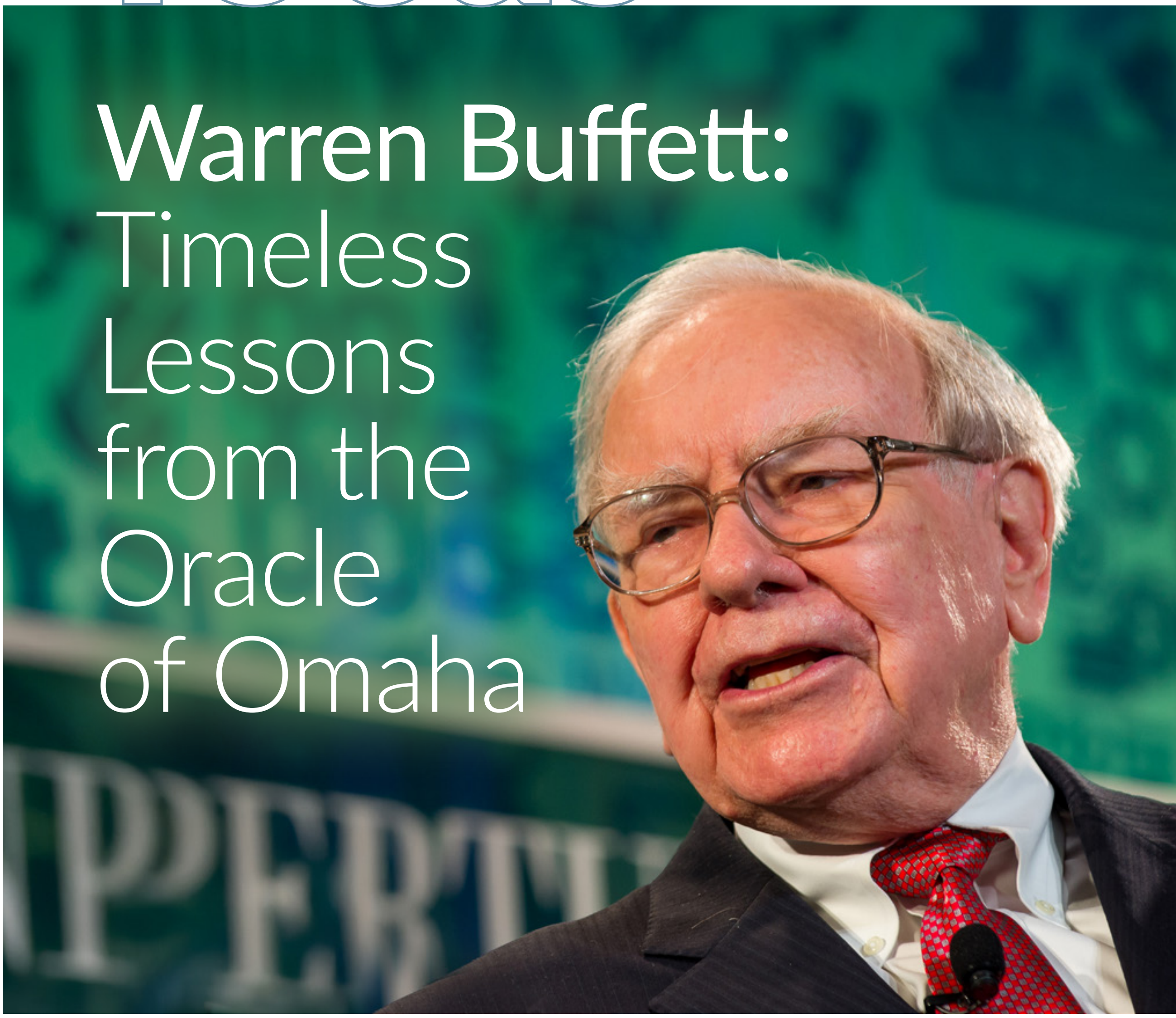
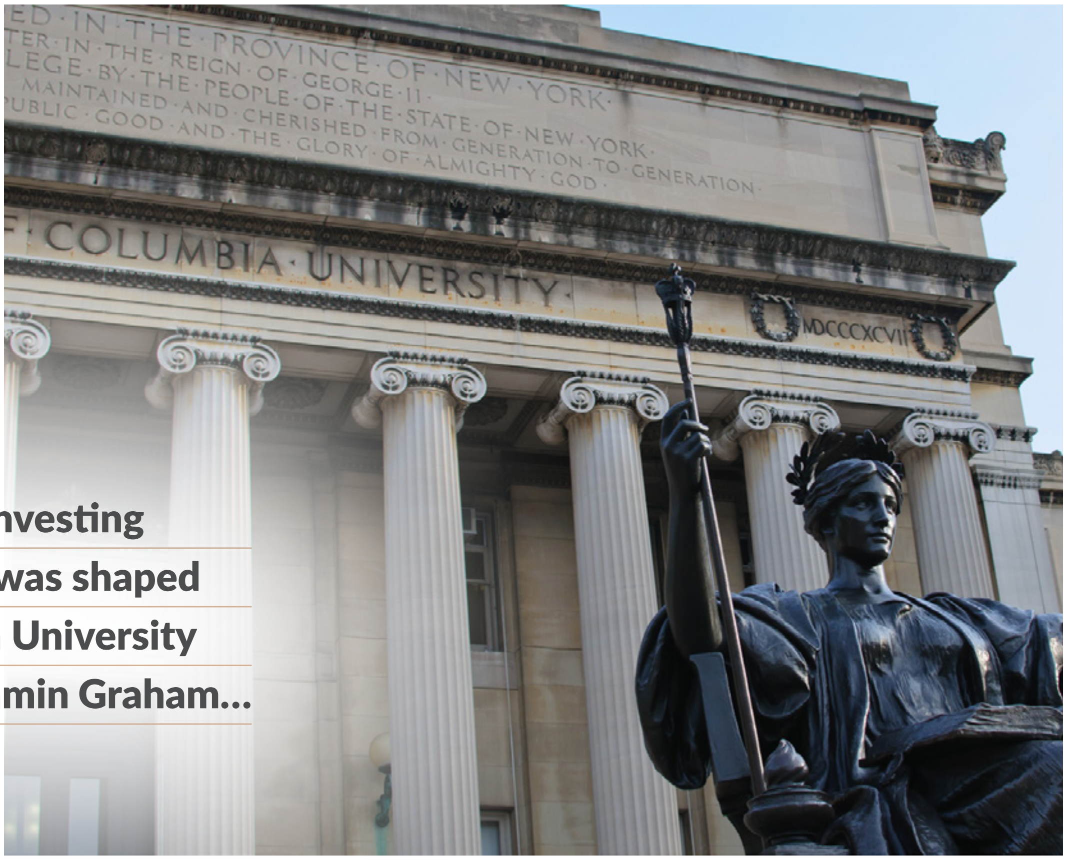
focus

Warren Buffett: Timeless Lessons from the Oracle of Omaha



This month marked the end of an era: 94-year-old Warren Buffett announced his retirement as CEO of Berkshire Hathaway. Known as the 'Oracle of Omaha', Buffett is the world's most famous investor, admired not only for his stellar investing track record but also for his humility and wisdom. His approach to investing and life provides timeless lessons for investors.

FORSYTH BARR



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Early days: A cigar butt investor

Born in 1930 in Omaha, Nebraska—where he still resides—Buffett displayed entrepreneurial flair at an early age, selling chewing gum, Coca-Cola, and magazines door-to-door. He made his first stock investment at age 11.

Buffett's investing philosophy was shaped at Columbia University under Benjamin Graham, the father of value investing. In 1956, Buffett launched the Buffett Partnership Ltd. (BPL), adopting Graham's 'cigar butt' strategy: buying struggling companies at bargain prices. The analogy goes: 'a cigar butt found on the street may have only one puff left in it, but the "bargain purchase" will make that puff all profit'.

The results were exceptional. Between 1957 and 1968, BPL delivered net annual returns of 25.3%, compared to the Dow Jones Industrial Average's 9.1%.

In 1969, Buffett dissolved BPL, citing a speculative, overvalued market that made it challenging to find attractive investment opportunities. Additionally, his investing style was evolving—no longer looking for 'cigar butts' but rather for quality businesses with a durable competitive advantage. He offered BPL investors a choice: cash out or convert their holding into shares of Berkshire Hathaway, a struggling textile company which he controlled.

Berkshire Hathaway: From struggling textile mill to US$1 trillion conglomerate

Buffett began acquiring shares in Berkshire Hathaway in the early 1960s and took control in 1965. While the textile operations floundered—Buffett later called it 'the dumbest stock I ever bought'—he used Berkshire as a vehicle to build a US$1 trillion conglomerate.

Berkshire today owns a wide array of businesses across insurance, energy, freight, and more, and holds major equity positions in companies such as Apple, American Express, and Coca-Cola.

Since 1965, Berkshire's stock price has delivered compound returns of around 19.9% per annum—nearly double the S&P 500's 10.4%. To put that in perspective, a $10,000 investment in Berkshire in 1965 would be worth about $550 million today. The same investment in the S&P 500 index would be worth around $3.9 million.

THE MAGIC OF COMPOUNDING

Over the past six decades, Berkshire Hathaway has achieved average annual returns nearly twice that of the S&P 500. While that sounds impressive, the effect over time is extraordinary: thanks to the power of compounding, Berkshire's total return over this period is roughly 140 times greater.

Albert Einstein famously referred to compounding as 'the eighth wonder of the world'. Its power lies in the snowball effect—earning returns not only on the original investment but also on the gains that accumulate over time. The longer the investment horizon, the more pronounced and exponential the impact of compounding becomes.

Timeless lessons for investors

Buffett's investing acumen was honed far from Wall Street. He achieved legendary status not only through performance but also through his plainspoken wisdom and principled approach. Here are some of his most enduring lessons:

1. Be patient

> *'The stock market is a device to transfer money from the impatient to the patient'.*

Markets can swing on headlines and emotion. Impatient investors react to those movements—sometimes selling out of fear during downturns or chasing quick gains. In contrast, patient investors focus on the long term. They understand that quality businesses will grow shareholder value over time, irrespective of short-term noise.

2. Stick to your strategy

> *'Success is not measured by IQ but by temperament.'*

Buffett's disciplined, emotion-controlled approach has seen him navigate many cycles. During the late-1990s tech bubble, Berkshire's stock fell 30% while the S&P 500 soared over 40%. Critics called him out of touch, outdated, and overly conservative. Buffett has never wavered from his strategy. After the 2000 market crash, Buffett's steadfastness was vindicated and the relative performance between Berkshire and the S&P 500 completely reversed.

3. Focus on value and quality

> *'Price is what you pay; value is what you get.'*

Buffett looks for companies trading below their intrinsic value, investing based on a company's fundamentals (e.g. earnings, assets, competitive advantage, return on capital).

However, he recognises that valuation multiples are not all that matters. Influenced by his long-time partner Charlie Munger (who passed away in 2023), Buffett learned to seek quality businesses at a fair price—rather than just stocks that look cheap.

4. Think long-term

> *'Time is the friend of a wonderful business'.*

Buffett's favourite holding period for an investment is *'forever'*. He measures success over years, not days or months. Good businesses compound in value over years.

5. Stay within your circle of competence

> *'You don't have to swing at every pitch'.*

A core Buffett principle is to invest in what you know. This has meant he has largely shunned technology stocks (his large and highly successful investment in Apple, which he views more as a consumer brand, is an exception). That has meant he missed some fantastic winners, but sticking with what you know also reduces the risk of chasing overhyped investments that end in pain.

6. Mistakes are okay

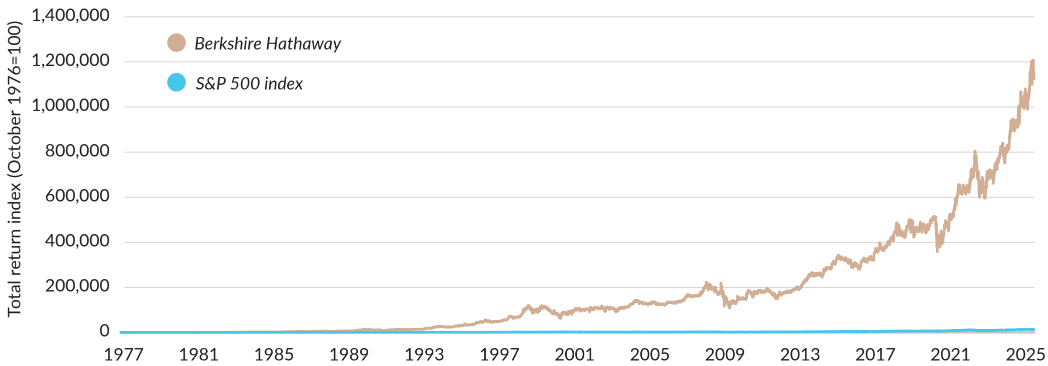
> *'We have made plenty of mistakes—and we will make more. But we hope to learn from them.'*

Buffett is candid about his mistakes. In his annual Berkshire shareholder letters, he reflects on errors such as overpaying for investments, underestimating the pace of disruption, or missing big opportunities like Google and Amazon.

However, making mistakes when investing is okay. No investor gets every decision right. Buffett emphasises *'the weeds wither away in significance as the flowers bloom'* meaning that, over time, strong winners outweigh the blunders.

> **...Warren Buffett's retirement marks the close of a legendary chapter in investing... we can all learn something from the wisdom he imparted...**

BERKSHIRE HATHAWAY RETURNS VS. S&P 500



7. BE CONTRARIAN

> *'Be fearful when others are greedy, and greedy when others are fearful'.*

Don't get caught up in the hype when markets are surging, and, likewise, be prepared to look for bargains in a downturn.

Buffett made bold, contrarian investments during turbulent times: buying aggressively during the 1970s bear market, coming to the aid of American Express during its Salad Oil Scandal in 1963, and providing capital to banks during the 2008 Global Financial Crisis. These moves looked risky at the time—but proved lucrative in the long run.

Buffett's legacy will live on

Warren Buffett's retirement marks the close of a legendary chapter in investing. His track record and philosophy—anchored in patience, discipline, a focus on both quality and value, and humility—have shaped how investors think about businesses and markets. While few may match his success, we can all learn something from the wisdom he has imparted.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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