

WARREN BUFFETT, THE INTELLIGENT INVESTOR

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Abstract: *Starting from the difficult economic conditions in Romania, the paper identifies the qualities of an intelligent investor on the background of the economic and financial crisis by presenting Warren Buffet's strategy and action in the recent times. The conclusion is that Warren Buffet remains in the economic history as the most atypical capitalist that Americans have ever had and his behaviour could be successfully followed by the Romanian business men.*

Key words: *economic and financial crisis, political decline, investment, business environment.*

We are going through an extremely difficult time for the Romanian economy. A time when corruption, ignorance, versatility, disdain, cunning of the worst kind, sinful passion for illicit fortunes have joined and are still joining hands, are uniting with a will-power worthy of better causes. In fact, and because there have now been more than 20 years of such realities, and because they are being emphasized by a crisis which has stuck its fangs deep into the country's weakened body, the big opportunities for spectacular "bargains" have run out. It is now mainly smaller "businesses" of the type "take a little from many", from everybody if possible, that have remained for various purposes in the hands of those who "make" our destinies - of course with exceptions like "Rosia Montana", The Property Fund, Agencies, etc... Through the painful blows that are going to be dealt to pensions and salaries- public or private- it is aimed to

somehow reduce the fragility of an economy which, unfortunately, cannot through itself, through investments, production, productivity, etc pay pensions and salaries but only through loans. They refuse to understand that what is happening today in our economy is not merely the outcome of adverse circumstances - which are real, of course - but - and I believe especially - the cumulated effects of about two decades of an evident economic and political decline, which has now brought us to the brink of suffocation. Overnight tycoons, when the country has and is becoming increasingly and notoriously poorer. How else can this happen if not by cunning, interrelated speculations admitted and allowed at all necessary levels?...

It is, however, not these problems - exposed, analysed, dissected, examined, found culprits for by a whole written, spoken, high circulation press, without much practical import though - that I wish

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to refer to in what follows. It is to the thinking and conduct of a great American entrepreneur of our days, in the general conditions of development but also in the special conditions generated by the crisis. This is the patriarch- today almost 79 years old- Warren Buffet, the “anti-speculator”, who during the crisis sought intelligently to invest intelligently, contributing to a certain extent through his actions to the new horizons of light that have started to dawn on the American economy.

By comparing, if one wishes to do so, such actions with the marked embarrassment that has been and is still evident in our economy, we can guess and even see the huge dimensions of some differences between the Americans and us. The differences between the well-designed and well-done thing in an economy which, both in theory and in practice can hardly allow lasting economic and social slides, effectively operating the market levers, the rigors and restrictions as such on the one hand, and the hasty and badly-done thing on the other, lost in chaos, without taking account of the serious social effects thus developed, which could quite rapidly lead us towards all sorts of unrest with one common denominator: their extent. After all, the increasing number of unemployed, the people whose already low wages and salaries as compared with those in most EU countries continue to decline, although their productivity is not any lower, all of us who live almost exclusively from exports while our economic activities are contracting day by day, all these people, the large mass of the country do not really care what this or that politician or decision maker has said, at a restaurant or on television, in official statements, if what he has said does not have a positive impact on every present or future worker’s wallet.

And it has no impact, which reveals more disdain than serious concerns.

It is, of course, difficult to govern. Much more difficult than it is to write about governing. But through government and opposition those solutions should be found- and we are not referring here to one particular government but to everything that has been taking place negatively (there have been, of course, not few positive elements, too) for about two decades - which can resolve the situation rather than worsen it.

But let us come back. So, Warren Buffett. Almost 79 years old. Considered as being the wealthiest man in the world. And by many, the most business wise. Towards the end of 2008, in full stock market turmoil, in full crisis, Warren Buffet invested no less than 12.7 billion dollars in Constellation, Goldman Sachs and General Electric, “companies shaken by violent storms”. And to good profit. More exactly, “with a reptile’s cold blood” he “swallowed” Constellation Energy, an electricity producer with high losses and coveted by EDF (4.7 billion dollars), then a large part of the investment bank Goldman Sachs (5 billion dollars) and a large part of the industrial conglomerate General Electric (3 billion dollars). And he was still left with important amounts in cash. As a matter of fact, at the end of the first semester of 2008, the Berkshire Hathaway Investment Fund had available 31 billion dollars ready to be invested right away into firms weakened by the crisis. “Buffett, as Helene Constanty was writing in “Challenges” had even stated his willingness to contribute an additional 1% to the Paulson 700 billion dollars plan meant to revive the American economy”. Of course, a firm answer to a situation of crisis, which involved and involves great intelligent efforts in order to produce, and not the propensity towards embarrassing

speculations of one type or another, with the more or less underground depletion of the state money and important financial gains at the expense of public money, of the public consumer, even in times of economic slowdown, as it happened in our country ("the smart boys" from energy, etc ...)

This business man, with the appearance of a tranquil grandfather, remains and will remain in economic history as the most atypical capitalist that the Americans have had. The only one to have built a huge fortune (62 billion dollars according to the "Forbes" magazine) mainly during stock exchange crashes. "His golden rule?" He has regarded and still regards markets and their fluctuations as allies, not as enemies. In other words, according to Helene Constanty "buying when the others are selling and never panicking when the stock market was or is declining." Easy to say, of course, but difficult to put into practice year after year, following the establishment of his investment fund in the 1960s.

Every recession in the American economy, every Wall Street slump - in 1973, 1979, 1990, 2002, 2007, 2008 etc. - have represented opportunities for production, for the creation of jobs for Warren Buffet, or for his Berkshire Hathaway Investment Fund. This has involved, of course, risk, responsibility, serious market research, the identification of trustworthy forecasts, decisive and consistent actions as well as flexibility. However, every time things turned out to his advantage for the entrepreneur.

So who has been and is Warren Buffett and how has his economic life unfolded? WB was born in August 1930 - he is a "leo" - his childhood having been marked by the "Great Depression" which followed the world economic and financial slump of 1929-1930, as well as by his father's "tales", an agent and broker at the Omaha

Stock Exchange in Nebraska. He was therefore faced with the economic phenomenon as early as a child... At the age of 20, after assiduous reading in childhood, adolescence, after the economic reading of an early youth, he read Benjamin Graham, "The Intelligent Investor". A true revelation for the young Warren Buffett. Graham, a professor at the University of Columbia, was teaching his students of finance, not to buy anything else but undervalued, under-priced assets, cigarette butts which nobody wanted. And Buffett will remain loyal to these iconoclastic principles all his life, "applying" them on a large scale and with phenomenal success. During the general meetings at Berkshire Hathaway, held once a year at Omaha, 30 thousand shareholders would hang on Buffett's lips. And thus has America grown. His following story has remained well-known: "An oil prospector goes to Heaven. He comes in front of Saint Peter who says: bad news, there is no room for you. The prospector thinks for a few moments and then replies to Saint Peter: may I say a few words to my fellow citizens here? Upon Saint Peter's permission, our man takes a speaking trumpet in his hand and shouts: they have found oil in Hell. Everybody hurries to get out and enter the gates of Hell. Therefore Saint Peter invites the oil entrepreneur to enter Heaven, now there is room for him. After a moment of hesitation he answers, no thank you. I would rather go and meet the others. After all, there may be something true in this rumour about oil..." Deep meanings regarding the market, the ability to interpret it. And Warren Buffet has known, and knows how to do it. It is for a good reason that thousands and thousands of people, small shareholders would listen to him so attentively. Nothing common about this intelligent, educated,

thorough man with the tricks and hurtful businesses of “great” entrepreneurs in our country ...

It is certain that Buffet has always abhorred speculation. The stock exchange „Les allers – retours” have meant little, very little to him. He has always preferred to buy reliable assets and remain loyal to them for years. In most representative cases, for life. He has only chosen exceptional enterprises which held a dominant position in their sector, and were relatively insensitive to the “rumour leaps” of stock market players. His stock exchange participations in 2008 for example, offer a beautiful sample of the American economy in its most solid components: 13.1% for American Express, 8. 6% Coca – Cola, 3. 3% Procter and Gamble, 9. 2% Wells Fargo bank, etc. His “communion” with Coca-Cola has been and still remains an exemplary fact. First, because it is about his favourite drink, a “fetish”: the billionaire only drinks Cherry Coke, the cherry-flavoured version. Second, Buffett waited for many years before investing, lying in wait for a moment of weakness on the part of the shareholders. And this moment presented itself after the 1987 Krach. Almost silently, WB bought about 2 million shares. At present the value of this interest amounts to 8 times the price paid. This has meant, and means business inspiration...

Warren Buffet has kept his distance from the “technological values”, which he regards as very insecure. He lived through the Internet bubble years, they say wondering every morning how investors could lose their common sense to such an extent, staking their money on dotcoms, so obviously overvalued. As a matter of fact, one of his most beautiful tirades against Wall Street and speculators dates back to February 2001: “They do not know that if

they stay at the ball for too long they will be turned into pumpkins or into rats. At the same time, they will not lose a single moment of entertainment. They are all planning on leaving the ball one second before midnight. The problem is that they are dancing in a room where clocks do not have second hands.” Such an aversion to risk served him well, as well as the “happy shareholders of his investment fund”. The value of the Berkshire Hathaway shares has appreciated by an average of 21% per year after 1965.

And yet, Warren Buffet has nothing of the anti-capitalist revolutionary. Neither in his thoughts, nor in his actions or gestures. On the contrary, the passion of his life has been to capitalize on invested money. Intervening to a very little degree in his portfolio companies, he has only been interested in one indicator: the profitability of invested capitals. Which has entailed a relentless fight against waste and a visceral mistrust of mergers and acquisitions, which he believes are only aimed at inflating the managers’ ego without serving the shareholders’ interests. He has always expected his company managers to be “up and about” like himself. It is true, for a long time, it seemed like Buffett was preaching in the desert. However, with the beginning of this decade his ideas started to gain ground. The burst of the dotcom bubble, then the Enron scandal, then the subprimes crisis, and finally the onset and unfolding of the current economic and financial world crisis. All these have shaken beliefs, have changed attitudes. Almost suddenly, stakeholders remembered the “Omaha preacher”. His tirades against fat cats’ huge salaries, his tirades against stock-options, the genuine crusade Buffett has led for a more egalitarian tax system. Thus he placed himself in the focus of attention, of

debates, and his favourite and fundamental style is still gaining proselytes.

As Helene Constanty writes “Buffett defends political ideas that would make the hair rise on the heads of those billionaires who spend their fortunes on Central Park duplexes, chromate yachts and many body guards. He does not have harsh enough words in order to criticize big owners’ pay generosity towards themselves. He has paid himself the same amount for many years: 100,000 dollars a year, which according to Forbes places him on the 497th place among the best paid business owners in the United States.” “If able but greedy managers over-reach and dip too deeply into the shareholders’ pockets, directors must slap their hands.”- Buffett writes. According to his opinion, boards of directors do not fulfill their true role. They have become “precious”, “velvety” clubs which politely allow access and approve of any request on the part of the executive team. “When a PDG- writes Warren Buffett- asks his board of directors for permission to grant himself a mega-bonus in the form of stock-options, to dare object seems as gross as farting at the table,”. These among others are the reasons, Warren Buffett shows, which have led us into the current economic and financial world crisis. And in order to recover we need to change such attitudes...

But how has Warren Buffett been acting in politics? The last presidential elections have given him the opportunity to assert his support for the democrats. With a special treatment for Barack Obama, whom Buffett supported as early as his campaign for Illinois senator in 2005. The great financier has been sending him press cuts annotated with his reflections on economic policy. It seems that it was thanks to Warren Buffett that Obama gained Bill Gates’ support, too. One of

Buffett’s fundamental ideas taken over by Obama is that the American fiscal system is deeply unjust as it taxes capital gains too little. For example, in 2007 while taking part in a fund-raising dinner for the Democrat Party, a dinner of 4,600 dollars per plate, Buffett was outraged in front of a room full of business owners: “we all present play proportionally lower taxes as compared to our receptionists and cleaning ladies. I myself paid 17.7% in taxes on my 46 million dollars last year, while my secretary who declared a 60,000 dollars salary, was taxed with 30%...” Remembering what is happening in our country, I am of the opinion that it is not the tax bases and tax rates that are the problem at this stage, but their origin, the genesis of many of these incomes. As there is a certain balance between what some people or others – power or opposition-have done, and not since yesterday but for almost 20 years, nobody is held accountable, and we all compliantly supply with money the potential financiers of our times. Why does, for example, 1 kilometer of highway cost us 3 or 4 times more than the respective cost abroad, why do we have “asphalt kings”, so spectacularly rich when our highways are in the shape they are in? The answers are easy to find, but just that. Then, nothing, while “smart boys” raise million after million of euros, build themselves palaces, lead a life of nabobs and actually mock us all. The actual punitive actions of the justice are too small...

But let us come back. Another of Buffett’s favourite topics? Succession rights. Warren Buffett is opposed to some facets of the inheritance notion, as he has decided to leave his entire fortune to humanitarian works, the foundation of his friends Bill and Melinda Gates in the first place. He was however “turned around”,

really “turned back” by the ideas in the republican camp, which referred to the actual suppression of succession rights. “To suppress them as such, Buffett was writing, will widen even more the gulf between the rich and the poor which does not cease to grow in the United States.” “Do you know many other super-capitalists that use such a language?”- H. Constanty was wondering at the end of her study on Warren Buffett. A question with a similar answer in our case, too...

References

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