

The Snowball: Warren Buffett and the Business of Life [Print](#)

Review by Richard Lambert

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The Snowball: Warren Buffett and the Business of Life

By Alice Schroeder

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How do you explain Warren Buffett? Everyone knows that in a deep and liquid capital market like that of the US, it is just about impossible to beat the stock market averages over anything more than the short term. But Buffett has been ahead of the curve for most of the past 50 years, making him one of the world's richest people.

Alice Schroeder's massive authorised biography, *The Snowball*, provides some clues about how he's done it.

FT Series: Warren Buffett

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The first is Buffett's single-minded determination from an early age to become very rich. The man dubbed the Sage of Omaha is portrayed as an obsessive – someone who at the age of seven asked Father Christmas for a book on bonds; who was taken to visit the New York Stock Exchange as a 10th birthday treat; and who announced shortly afterwards that he would be a millionaire by the time he was 35, a target he easily achieved.

Asked many years later for the secret of their success, he and his friend Bill Gates both gave the same answer: "Focus". His restless pursuit of money came before everything else. As he put it, "Intensity is the price of excellence."

While his young family grew up around him, he worked all hours in the small study at his house, poring over Moody's investment manuals, absorbing statistic after statistic with his near photographic memory. One of his friends described his wife as "sort of a single mother", and he remains totally undomesticated.

He was also famously tight with his growing pot of money. So confident was he in his own abilities as an investor that he regarded a dollar in hand today as actually being worth the \$5 he would turn it into tomorrow. He liked to say that his purchase of a petrol station as a young man had cost him around \$6bn compared to what he could have earned if he had invested the money properly.

This is the essence of his approach. In Schroeder's words: "The method was the same: estimate an investment's intrinsic value, handicap its risk, buy using margin of safety, concentrate, stay in the circle of competence, let it roll as compounding did the work. Anyone could understand these simple ideas but few could execute them."

Apart from his own talents, Buffett has been fortunate in his mentors. One was the legendary pundit Ben Graham who taught him at Columbia University in New York. His book, *The Intelligent Investor*, remains among the best popular guides to stock market investment.

From Graham he learnt that "Mr Market is your servant, not your master". The market offers to buy and sell stocks every day, often at prices that don't make sense. But from time to time, it does give the chance to buy low and sell high.

A second mentor was his first wife Susie, a warm and affectionate personality who, according to Schroeder, managed to humanise Buffett and taught him how to deal with people. Then there was Kay Graham, owner of the Washington Post, who introduced him to a new world of political glamour.

He became her business guru. She showed him there was more to social life than Cherry Coca-Cola and chocolate chip ice-cream

A key player in the Buffett story is Charlie Munger, his longtime business partner. The two men talk to each other all the time, have a low boredom threshold, and a deep dislike of sharp dealing. In Buffett's words, they are "Siamese twins, practically". But while Buffett likes to project an awe-shucks country boy image, Munger has a tougher style. He once shocked the annual meeting of Berkshire Hathaway, Buffett's master company, by opining that "if you mix raisins with turds, they're still turds".

Buffett is more than an investor. One of his great skills lies in appointing the people who run his companies – obsessed perfectionists like himself. A disciple of Dale Carnegie's *How to Win Friends and Influence People*, his style is to smother them with praise, then ask them to work even harder.

He uses the same technique when it comes to negotiating the purchase of companies that he wants to own. The book tells of several occasions on which the vendors didn't in their heart of hearts actually want to sell their business but were persuaded to do so by Buffett's sheer reasonableness and charm. "I wouldn't dream of looking at audited financial statements," he would say – just tell me what you want and we will shake hands.

But along with the homely aphorisms comes a tough and sometimes icy personality, with a complex personal life and an ability to shut out emotional contact. In the business world, this has enabled him to stand apart from the crowd even when under great pressure to go along with the consensus. He steered well clear of the dotcom bubble and has been a longtime critic of the financial excesses that have led to today's troubles.

As far back as 2002, he said that derivatives were "toxic" and potential "time bombs". Munger, less elegantly, added: "To say derivative accounting in America is a sewer is an insult to sewage."

The biography is right up to date – it covers the Bear Stearns collapse – and Buffett's thoughts about what is happening in the markets now are worth quoting at length.

"It could all end on a dime if they flooded the system with enough liquidity", he tells Schroeder, "but there are consequences to doing that. If dramatic enough, the consequences would be the immediate expectation of huge inflation. A lot of things would happen that you might not like. The economy is definitely tanking. It's not my game, but if I had to bet one way or another – everyone else says a recession will be short and shallow, but I would say long and deep."

Coming from someone with his track record, this is not a comfortable thought.

Richard Lambert is director-general of the Confederation of British Industry

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