

UT Finance Students Visit with Investment Legend

By: Clayton Williams: President, Financial Management Association

On February 2nd and 3rd, forty students from the Financial Management Association at the University of Tennessee journeyed to Omaha, Nebraska for their fifth annual meeting with Warren Buffett, legendary investor and CEO of Berkshire Hathaway. The two hours spent with Mr. Buffett has become the highlight of the academic year for UT's finance students. It is a tremendous opportunity that Buffett grants to only three other universities.

Speaking with Mr. Buffett, it is easy to understand his incredible success. His personal charm and affable nature quickly disarmed his audience, and there was certainly no indication that his \$36 billion fortune has caused him to lose touch with his humble roots. He joked, "I may pay a little more for clothes than you do, but they look cheap when I put them on." The billionaire still lives in the same house he bought in the 1960s for \$31,500, and hamburgers and Cherry Coke are still among his greatest pleasures. His love of Cherry Coke is likely influenced only slightly by the fact that he now owns over 8% of the Coca-Cola Company.

Mr. Buffett makes extensive use of parables and aphorisms to share his views on life and business. He began the meeting by telling the parable of the one car. In this story, a man who knows that he will have many cars over his lifetime will have little motivation to care for his current car because he knows that it will soon be replaced. However, if the man is told that he will only have one car in his entire lifetime, he will take meticulous care of it, changing the oil every thousand miles to make sure that it will always be in good condition. Similarly, everyone has one body and one mind, yet most people still do not take care of themselves. To be happy and successful though, it is imperative to form the right habits early in life.

He believes that we all have the intelligence and energy to be successful in life but forming the wrong habits and values can be ruinous. In his view, many of the business scandals of the past few years have been the result of individuals with the wrong motivations and skewed views of success. He referred to CEO compensation as obscene and called stock options corporate lottery tickets. Buffett's own salary is only \$100,000 per year with no options or bonuses. He stated that the CEOs of scandal "had the right vehicle but traveled the wrong road."

Success, he continued, should not be measured by how much money you make, but by whether you have the love and respect of those important to you. He exemplified success through the story of his friend, a Polish Jew who lived in hiding during the Holocaust. In Buffett's view, success could be measured by posing the question, "how many people would hide you?"

Following this, Mr. Buffett answered student questions for almost an hour and a half. While he would not comment on individual stocks, he explained his investment philosophy in great depth. Buffett's investing style is commonly referred to as "value

investing,” but he makes no distinction between value and growth investing. Stocks are not simply ticker symbols that go up and down but parts of a real business with claims on future streams of revenue, and one should not pay more for a share of the business than he or she would be willing to pay for the whole thing.

Often Buffett’s aversion to “growth stocks” has been due to the fact that he lacks a sufficient understanding of the business to know what the stock is worth, making the investment a bit of a gamble. He considers himself “extraordinarily risk averse” and likes a sure thing. In his view, it is exceptionally hard to pick the next big winner and often speculative buying bids the price up to levels that would effectively preclude the possibility of any future gain even if the stock were the winner.

He seeks to own the kind of businesses with good fundamentals where he doesn’t care if the stock market closed for five years the next day. He holds over 9% of Gillette and “sleeps well knowing that hair is growing on a couple billion men’s faces around the world.” On the trip, the students actually got to tour two wonderful examples of a Buffett business, the Nebraska Furniture Mart and Borsheim’s Jewelry. Each of these businesses boasts the largest single store sales of their industry,

Next, he stated that the three most important factors in a stock price are interest rates, corporate earnings, and investor psychology. Investor psychology has been an extremely important market mover in the past year, but Mr. Buffett largely ignores it. He believes that it can make a huge difference in the short-term but makes no difference in the long run. He believes that humans are no smarter as investors than they were 50 years ago, and that they still make irrational decisions based on fear and short-term speculation. According to Buffett, “Mr. Market is a maniac depressive alcoholic,” and intelligent investors can benefit from these irrational market swings.

When asked about the war in Iraq, Buffett responded that it does not affect his approach to the market because he cannot predict it, and that “you should not let something you don’t understand stop you from doing something that you do understand.” Buffett said that if investors at the beginning of the 1900’s could have foreseen two world wars, the great depression, and nuclear proliferation, it might have been easy to continually say, “well maybe I had better wait until this clears up,” but despite the volatility of the markets, they would have missed huge returns and the greatest period of economic growth in history. He remains bullish on the long-term prospects of the US economy and equates being born in America to “winning the ovarian lottery.”

Senior, Doug Webster said, “it is amazing how simple he [Buffett] makes it. He can distill the most complex business concept down to an idea that you’re amazed you didn’t think of yourself.”

Following the session, Mr. Buffett took time to pose for pictures and autograph books brought by the students. Junior Daniel Ruble said, “Mr. Buffett is so generous to us with his time. I can only imagine what we cost him if you considered his hourly rate!”

UT's connection with Mr. Buffett developed through a correspondence between Buffet and UT faculty member, Dr. Al Auxier. The correspondence began while Auxier was working on a tribute to Buffett's mentor, Benjamin Graham, that was published in a 1994 issue of Barron's.

UT's Financial Management Association is tremendously grateful to the work of Dr. Auxier in creating the relationship and to Mr. Buffett for graciously sharing his time and business wisdom. The group hopes to continue the traditional pilgrimage in future years.