LESSONS FROM THE ORACLE

After following billionaire Warren Buffett for 15 years, US author and speaker

How did you become a Buffett follower?
I asked myself, "Who is the best at investing and is he or she available to invest for me?" I quickly discovered that it was Warren Buffett. I read Roger Lowenstein's biography, *Buffett: The Making of An American Capitalist,* and it made a lot of sense. Buffett says value investing is a quick inoculation — you either get it in the first 10 minutes or you don't. So I bought shares and read the Berkshire Hathaway Owner's Manual. In 1996, I attended my first annual meeting and haven't missed one since. What I heard was someone speaking the truth about Wall Street, investing, finance, the stockmarket, life, philanthropy, inheritance, wealth, success. Buffett says, "Wall Street will sell you anything that you're willing to buy. Wall Street is a legal pickpocket of the average investor." Speaking the truth in a commonsense folksy Midwestern way really resonated with me and thousands more, which is why attendance has grown every year since. I first met Warren at a local Omaha Dairy Queen outlet after he bought it in 1998. At the end of that year, I decided as a challenge to myself to log on to The Motley Fool (fool.com) where they have a discussion board dedicated to everything Berkshire. Under the pseudonym "simpleinvestor", I stated that I could come up with 101 reasons to own Berkshire. Each day I logged on and posted a new reason. After 101 days, I completed my challenge. Those posts became my first book, *101 Reasons to Own the World's Greatest Investment: Warren Buffett's Berkshire Hathaway*, which launched my career as a Buffett follower.

What do you see as Buffet's main lessons?
That it is possible to become wealthy without compromising your principles. His example of living in middle America, far away from Wall Street and Silicon Valley, and investing for the long term in sensible, durable goods and services. And you can do this from wherever in the world you sit. His investment philosophy is simple — first, figure out how to value a business and, second, how to understand stock prices. Buffett's method is value investing — figure out what an investment is worth, discount it back to today and attempt to buy it cheaper. You should also not invest in stocks if you don't know how to think about market prices — to buy when everyone else is selling and sell when everyone else is buying. Or as Warren says, "Be greedy when everyone else is fearful and be fearful when everyone else is greedy."

Why do so many people attend Berkshire's annual shareholders' meeting?
The primary reason 36,000 people attend from all over the world is to learn from a man with credibility speaking the truth. Warren has created his wealth and many of his shareholders' wealth by investing in small pieces of other people's businesses, first through the stockmarket and then buying the business in its entirety. Warren is educating his shareholders on how they can do the same. Warren along with his partner, Charlie Munger, answers unedited questions for six hours. Their recall of facts, figures and details is mind-blowing.

Has Buffett has changed over time?
He is still investing the same way at 83 as he did when he was 19. As a teenager, Warren had an epiphany when he read Benjamin Graham's *The Intelligent Investor*. He has often said it is the only book an investor needs to read. The three lessons he took away are these: (1) Remember that stocks represent pieces of the business. Stocks are not symbols in your newspaper or electronic blips on your computer screen. When investors begin to think like an owner of a business, they forget about trading in and out of the market and naturally

Warren Buffett, dubbed the oracle of Omaha, above and left; Robert Miles, who has written three books on Buffett's principles, right

GETTY, AP

Robert Miles reveals the indelible lessons he has learned

become long-term owners. (2) Graham's concept of Mr Market, an investor's manic-depressed virtual partner. When Mr Market is manic, he wants twice as much as you think the business is worth — a perfect time to sell your shares. And when he's depressed, he wants half as much as what you think the business is worth — a perfect time to buy. Most investors make the mistake of letting Mr Market be their master, feeling bad when the market is down and jubilant when the market is rising. Warren says, "Mr Market should be your servant instead of your master." (3) The important concept of margin of safety — only buy things that are trading below their value. Buffett has never deviated from these three rules. He is about buying wonderful businesses run by top-notch managers at a fair price instead of a mediocre business at a wonderful price.

How has Australian interest in Buffett grown?

The interest in Warren Buffett in Australia is quite remarkable. After I published my first book, I was invited to Australia to speak. After one meeting, a group of investors hired a private jet to attend the Berkshire Hathaway annual meeting. This group of Aussies launched the international shareholders meeting with a private audience with Buffett and Munger after the main meeting, but it ended because there were too many people from outside the US wanting to go. It wouldn't surprise me to see the next Warren Buffett emerge from Australia. There are many outstanding Australian value investors. One of the best is Michael Kemp from Melbourne, author of *Creating Real Wealth*. Sydney-based investment manager Wayne Peters, of PetersMacGregor, has been successfully applying Buffett's methods for a long time.

What about Buffett's recent deals?

During the last market crash, Buffett really showed his genius. He lent money to many large corporations, including Goldman Sachs and Bank of America. Berkshire received above-market interest payments on the loans and in addition got stock warrants, giving it the right to buy stock at deeply discounted current prices.

Last year Berkshire bought Heinz Ketchup along with a Brazilian partner. In 2010, many people questioned Buffett's purchase of one of the largest railroads in the US, Burlington Northern Santa Fe, now his most profitable subsidiary. Along with his investments in electrical generation plants across the US and in Britain, he has transformed his holding company from an insurance company to a conglomerate with the majority of earnings coming from diverse industries. Berkshire Hathaway is now becoming a household name, owning the second-largest real estate brokerage company in the US.

What will happen when he retires?

Berkshire Hathaway is like a starfish. You will be able to cut out the head and the parts will regenerate themselves. After Buffett "retires", his roles as chairman, chief executive and chief investment officer will be split into three parts. Berkshire's non-executive chairman is most likely to be his oldest son, Howard, whose sole job is to protect the unique culture of Berkshire. The CEO in charge of operations is most likely someone already managing a subsidiary. These include Matt Rose of Burlington Northern railroad, Greg Abel, MidAmerican Energy Holdings, or Tad Montross at General Reinsurance. The CEO of capital allocation, responsible for reinvesting $US2 billion in monthly cashflow to headquarters, is likely to be divided between Ted Weschler and Todd Combs. TD

Miles's Value Investor Conference is in Omaha, May 1-2; the Berkshire annual meeting is on May 3.